

# **Shared Commitments to Conservation**

*2006 Annual Financial Report  
Of the U.S. Fish & Wildlife Service*

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# Message from the Director of the U.S. Fish and Wildlife Service



I am pleased to present the U.S. Fish and Wildlife Service's Annual Financial Report, providing information on our financial, management, and programmatic results for fiscal year 2006.

The Service is entrusted with the protection, conservation, and recovery of threatened and endangered species, migratory birds, some marine mammals, inter-jurisdictional and other fisheries and their habitats, stewardship of the National Wildlife Refuge System, and assists foreign governments with their conservation efforts. Additionally, we oversee Federal assistance programs to States for sport fish restoration and wildlife restoration, which distribute hundreds of millions of dollars from excise taxes on fishing and hunting equipment to State wildlife agencies. We accept these responsibilities with optimism and resolve. As we meet the inspiring challenges of the future, we pursue our mission in the most efficient and effective manner to meet our responsibilities as stewards of the public trust.

I am proud to announce that the Service has received, for the fourth consecutive year, an unqualified audit opinion from the independent auditors who concluded that the Service's financial statements are presented fairly in all material respects. Additionally, the Independent Auditors' Report for fiscal year 2006 identified no material weaknesses. This demonstrates our dedication to maintaining sound financial practices and reliable financial information to support our commitment to effectively manage resources to protect and enhance fish, wildlife, and plants and their habitats for the benefit of this and future generations.

We continued to address challenges in fiscal year 2006. The Independent Auditors' Report for fiscal year 2006 identified no material weaknesses related to internal controls over financial reporting. In fiscal year 2006, the Service performed an evaluation of the Service's internal controls over financial reporting in accordance with the requirements of OMB Circular A-123, Appendix A. The Service's evaluation covered all of the business processes that generate amounts reported in the financial statement line items identified by the Department as material to the consolidated financial statements. I am pleased to provide reasonable assurance that the controls over financial reporting relating to these business processes are designed suitably and are operating effectively.

The Service has and will continue to take specific corrective actions to ensure greater security and general controls over sensitive information systems. Therefore, I conclude that the Service's systems of management and administrative controls provide reasonable assurance that Service operations, taken as a whole, meet the objectives of Section 2 of the Federal Managers' Financial Integrity Act, and that Service operations are being conducted consistent with the intended objectives of Office of Management and Budget's (OMB) Circular A-130.

Also in fiscal year 2006, we evaluated the Service's management controls as required by the Federal Financial Management Improvement Act (FFMIA). The purpose of this evaluation is to identify any material weakness that places the overall control system at risk and to ensure that intended program results are achieved, resources are used consistent with the Service's mission, resources are protected from waste, fraud, and mismanagement, laws and regulations are followed, and information is reliable and reported timely. Again, I am pleased to report that the Service is in compliance and no such material weaknesses were identified.

The financial and performance data presented in this report are complete and reliable, and in accordance with guidance from OMB. Additionally, we evaluated our financial management system as required by the FFMIA. I conclude that the Service's financial management systems substantially comply with applicable Federal accounting standards and the U.S. Standard General Ledger at the transaction level. They also substantially comply with Federal financial management system requirements regarding information technology security and general controls.

The information presented in this report provides the means to manage Service goals and objectives. It also illustrates how the Service supports the U.S. Department of the Interior's vision for effective stewardship based on communication, consultation, and cooperation, all in the service of conservation.

A handwritten signature in dark ink, reading "H. Dale Hall".

H. Dale Hall, Director  
November 6, 2006

# **I. The United States Fish and Wildlife Service**

Communities and individuals throughout the United States (U.S.) have a strong commitment to fish and wildlife resources. Many communities realize substantial economic benefits from tourism and visitors that come to enjoy fish and wildlife. Hunting and fishing remain strong components of community culture all along the Nation's great river systems. As an asset of tremendous environmental, recreational, and economic importance, the Nation's fish and wildlife resources represent a vital part of our natural heritage, one that is facing increasing pressures. For this reason, the mission of the Fish and Wildlife Service (Service) grows continuously more complex and critical.

## A. Mission and Organization

The Service's mission is working with others to conserve, protect, and enhance fish, wildlife, plants, and their habitats for the continuing benefit of the American people.

### **Mission**

The Service is the principal Federal agency responsible for conserving, protecting, and enhancing fish, wildlife, plants, and their habitats for the continuing benefit of the American people. The Service manages the 91-million-acre National Wildlife Refuge System (NWRS), which encompasses 547 National Wildlife Refuges (NWRs), thousands of small wetlands, and other special management areas. It also operates 69 National Fish Hatcheries, 64 fishery resource offices, and 81 ecological services field stations. The agency enforces Federal wildlife laws, administers the Endangered Species Act, manages migratory bird populations, restores nationally significant fisheries, conserves and restores wildlife habitat such as wetlands, and helps foreign governments with their conservation efforts. It also oversees the Federal Assistance program that distributes hundreds of millions of dollars in excise taxes on fishing and hunting equipment to State fish and wildlife agencies.

The Service has the privilege of being the primary agency responsible for the protection, conservation, and renewal of these resources for this and future generations. The Service accepts this responsibility and challenge with optimism and resolve to pass along to future generations of stewards a fish and wildlife resource heritage that continues to grow in strength and sense of purpose.

The Service employs approximately 9,400 permanent and temporary fulltime staff. Additionally, citizens support the organization by volunteering approximately 1.4 million hours per year. Although the Service is headquartered in Washington, D.C., over 90% of the workforce is located in communities across the nation at over 700 field stations supported by seven regional offices. The Service continues to focus on building and maintaining relationships with a broad array of stakeholders, including the States, tribes, community groups, and other organizations through our involvement at the community level.

## Organization

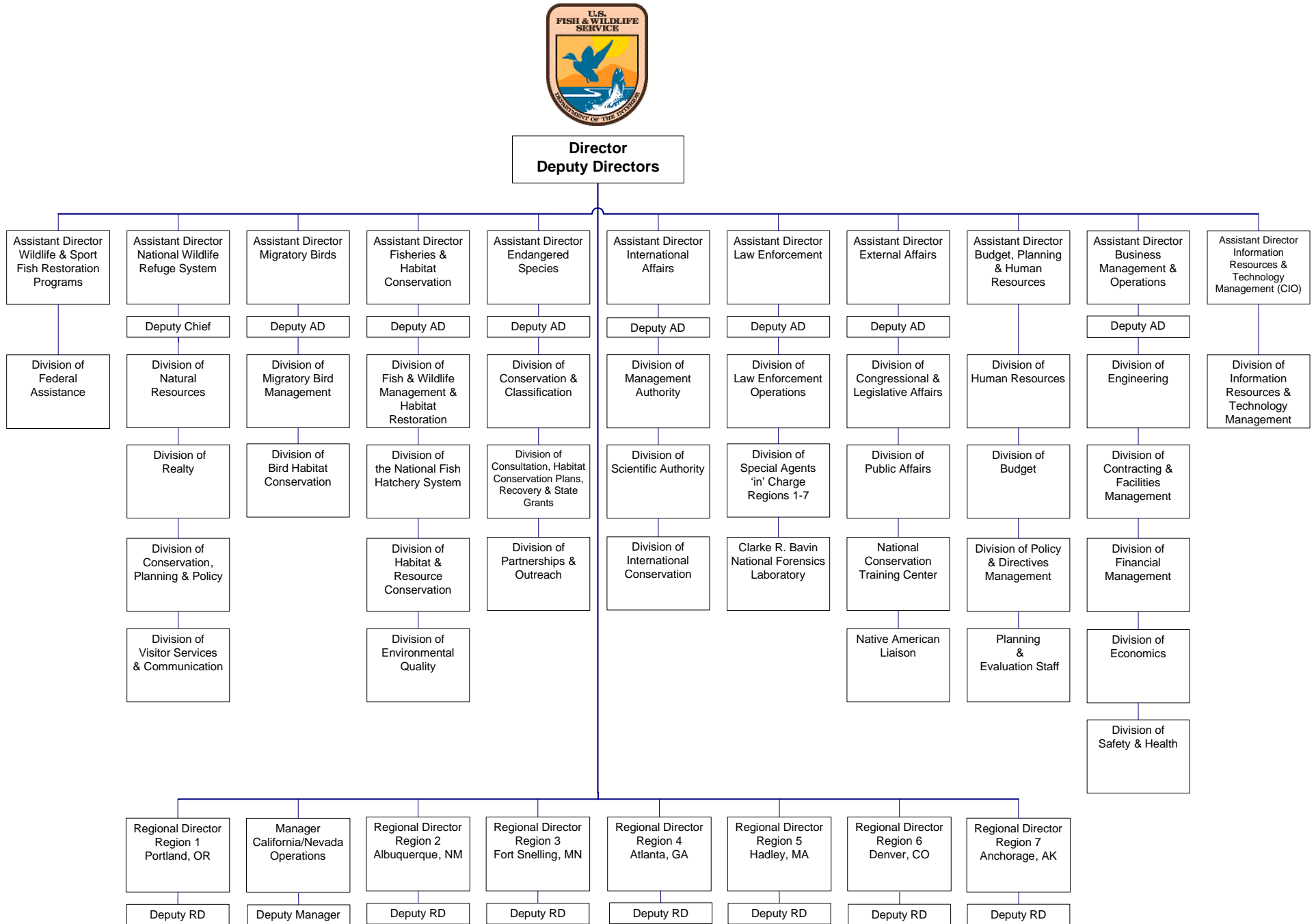
As shown in the accompanying organization chart, the Directorate of the Service is comprised of the Director, two Deputy Directors, ten Assistant Directors, and the Chief of Law Enforcement, all located in Washington, D.C. There are seven Regional Directors, located throughout the U.S. The Service headquarters offices are located in Washington, D.C. and Arlington, Virginia, with field units in Denver, Colorado, and Shepherdstown, West Virginia.

Regional Offices are located throughout the U.S.

- Region 1, headquartered in Portland, Oregon, serves California, Hawaii, Idaho, Nevada, Oregon, and Washington, and the Trust Territories of the Pacific. (Also included is the California/Nevada Operations Office.)
- Region 2, headquartered in Albuquerque, New Mexico, serves Arizona, New Mexico, Oklahoma, and Texas.
- Region 3, headquartered in Minneapolis, Minnesota, serves Indiana, Illinois, Iowa, Michigan, Minnesota, Missouri, Ohio, and Wisconsin.
- Region 4, headquartered in Atlanta, Georgia, serves Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee, as well as Puerto Rico and the Virgin Islands.
- Region 5, headquartered in Hadley, Massachusetts, serves Connecticut, Delaware, Maine, Massachusetts, Maryland, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Virginia, Vermont, West Virginia, and the District of Columbia.
- Region 6, headquartered in Denver, Colorado, serves Kansas, Montana, North Dakota, South Dakota, Nebraska, Colorado, Utah, and Wyoming.
- Region 7, headquartered in Anchorage, Alaska serves the entire State of Alaska.

In the Department of the Interior (DOI), the Service's Director reports to the Assistant Secretary for Fish and Wildlife and Parks and has direct line authority over Service headquarters and the seven regional offices. Assistant Directors provide policy, program management, and administrative support to the Director. Regional Directors guide policy and program implementation through their field structures, and coordinate activities with Service partners.

## B. Organizational Chart



## II. Management's Discussion and Analysis

The following areas are addressed in the Management's Discussion and Analysis:

- A. Mission Goals and Performance
- B. Management Controls and Legal Compliance
- C. Financial Highlights
- D. Limitations of Financial Statements
- E. Analysis of Financial Statements

## A. Mission Goals and Performance

DOI has developed a Strategic Plan for FY 2003 - 2008 that encompasses the missions and goals of its eight bureaus and the DOI Offices [http://www.doi.gov/ppp/strat\\_plan\\_fy2003\\_2008.pdf](http://www.doi.gov/ppp/strat_plan_fy2003_2008.pdf).

The plan is organized around the DOI's principal mission areas:

- Resource Protection
- Resource Use
- Recreation
- Serving Communities
- Management Excellence

The Service is entrusted with the protection, conservation, and recovery of threatened and endangered species, migratory birds, some marine mammals, inter-jurisdictional and other fisheries and their habitats, and stewardship of NWRS. As such, the Service will significantly contribute to the successful achievement of the DOI's mission goals for Resource Protection, Recreation, Serving Communities, and Management Excellence while supporting Resource Use through a collaborative environmental consultation effort.

The following information delineates Strategic Plan goal attainment for FY 2006 and provides explanation where appropriate for analysis and discussion. The report contains actual and estimated FY 2006 performance measure values. Estimated FY 2006 performance values are based on prior fiscal years performance measure trend data.

Note: the DOI's guidance and specifications for the performance section of bureau FY 2006 annual reports considers performance targets to be "met" when final or estimated data indicates that performance will be at or within 5% of the target.

**Mission Goal 1 -  
Resource Protection**

*Resource Protection/Improve Health of Watersheds, Landscapes, and Marine Resources that are DOI Managed or Influenced in a Manner Consistent with Obligations Regarding the Allocation and Use of Water/Achieve Watershed and Landscape Goals Through Voluntary Partnerships*

In FY 2006, the Service set a target of 651,087 acres achieving watershed and landscape goals through voluntary partnerships. The Service estimates that 670,620 acres of wetlands or uplands were restored and/or protected in FY 2006, thus, meeting its FY 2006 target.

*Resource Protection/Sustain Biological Communities on DOI Managed or Influenced Lands and Waters in a Manner Consistent with Obligations Regarding the Allocation and Use of Water*

The Service set a FY 2006 target of stabilizing or improving the population status of 356 species of the 942 Federally-listed threatened or endangered species listed for a decade or more (38%). The FY 2006 target was exceeded as 407 (43%) species were stabilized or improved. The reason for exceeding the target is that during the last two years, the Service has initiated 5-year reviews for over 400 species. Information provided in response to the 5-year review notices published in the *Federal Register* is helping the Service make more accurate determinations of the status of threatened and endangered species. Additionally, the Service set a target to prevent listing 4 of the 283 candidate species (1%) as a result of conservation actions or agreements. This target was also met as 4 species were prevented from being listed. These species include: Beaver Cave Beetle, Wonderland Alice Flower, Warm Spring Riffle Beetle, and Cow Head Tui Chub.

*Resource Protection/Sustain Biological Communities on DOI Managed or Influenced Lands and Waters Consistent with Obligations Regarding the Allocation and Use of Water*

The Service set a FY 2006 target to restore or enhance 463,757 wetlands and uplands acres consistent with management documents, and program objectives, and consistent with substantive and procedural requirements of State and Federal water law. The Service estimates that 477,670 acres were enhanced or restored, thus meeting its FY 2006 target.

**Mission Goal 2 -  
Resource Use**

Although Resource Use is only tangentially applicable to the activities performed by the Service and the DOI Strategic Plan does not contain an applicable performance measure, the Service does contribute through a collaborative environmental consultation effort. These consultation activities contribute to identifying environmental issues and potential mitigation strategies. Service costs in this mission goal are related to consultation work performed for other parties. Approximately 2% or \$32 million of the Service's FY 2006 appropriations are directed to these efforts. This activity is funded by Congressional appropriation, not reimbursable agreements, but is similar to reimbursable agreements in that there are no meaningful measures relating to the activity other than workload type measures.

**Mission Goal 3 -  
Recreation**

*Recreation/Provide for a Quality Recreation Experience, Including Access, and Enjoyment of Natural and Cultural Resources on DOI Managed and Partnered Lands and Waters*

The Service set targets for accomplishment in the following three intermediate performance measures:

Community Partnerships: The Service set a FY 2006 target to maintain 291 of 564 refuge and hatchery recreation sites (52%) through community partnerships. These are groups formally engaged (through Memorandums of Understanding, Memorandums of Agreement, or General Agreements) in helping the Service achieve its mission. The Service estimates that 419 of 564 (74%) recreation areas have community partnerships, thereby exceeding the FY 2006 target.

Facility Condition Index (FCI): The Service uses the FCI, a standard measure of the physical condition for facilities, to estimate its deferred maintenance needs. The FCI is the ratio of estimated deferred maintenance needs to the estimates of replacing facilities at today's costs. The Service set the FCI target for FY 2006 at 0.099 for refuge and hatchery recreational facilities. It is estimated that the final FCI index will be 0.085, thus exceeding the FY 2006 target.

Facilitated Programs: The Service set a FY 2006 target for refuge and hatchery staff (paid employees, volunteers, and cooperating association employees) to offer facilitated refuge interpretation or educational programs to 9,903,225 visitors to refuges and hatcheries. The Service estimates that 10,169,000 visitors were served by facilitated programs, thus meeting the FY 2006 target.

**Mission Goal 4 -  
Serving Communities**

*Protect Lives and Property/Intermediate Strategy 1, Improve Fire Management*

The Service set a FY 2006 target of limiting burn damage from unplanned and unwanted wild land fires on refuge land to 260,000 acres. These fires include those burning outside the parameters defined in land use or fire management plans. The Service estimates 260,000 acres were limited from burn damage for FY 2006. All the preparation possible cannot prevent forest and rangeland fires. Therefore, the Service must be prepared to respond effectively to unwanted wildfires that occur in places and under circumstances conducive to damaging fires. A high percentage of unplanned and unwanted wildfires controlled during the initial attack is a key performance measure for appropriate fire response.

**Mission Goal 5 -  
Management Excellence**

*Management Excellence*

The Service set a FY 2006 target of 1,389,147 volunteer hours that would be contributed to the National Wildlife Refuges and National Fish Hatcheries. Final FY 2006 data reveals that 1,403,969 volunteer hours were donated, thereby meeting the target. The Service provides opportunities for members of the public who wish to take an active role in the conservation of fish and wildlife through support of Service programs and activities and offers additional opportunities on refuges and hatcheries through volunteer assistance that would not otherwise be available. With Service employees working side-by-side with volunteers on every level, the Service protects, conserves, and restores our nation's fish, wildlife, plants, and their habitat.

## **Data Verification**

The Fish and Wildlife Service is committed to ensuring that those who use the Service's reported performance information to make decisions can do so with the confidence that the data are reliable and valid. The Service has made significant progress in developing processes that support data verification for the four major data quality areas. For example, to ensure standardized data definitions, the Service has worked closely with the Department in developing performance measure definition templates for all DOI Strategic Plan performance measures. All goals and measures are developed and reviewed by Service officials and staff from the field through the Headquarters level. Each goal is measurable and clear, and has a direct bearing on the mission activity in which it is categorized.

Data sources are clearly identified. The Service utilizes a number of databases for collecting and reporting performance data. For example, the Ecological Services program maintains the Environmental Conservation Online System, Threatened & Endangered Species System, and Habitat Information Tracking System. The Fisheries Program uses its Fishery Information System to track performance. The Refuge Program utilizes a newly deployed national database Refuge Annual Performance Plan (RAPP) that enforces a review process to ensure data validity.

In September 2006, the Service introduced a new Cognos software tool, Enterprise Planner, to report final FY 2006 performance data. Enterprise Planner will be used to set FY 2007 planned performance measure targets.

The Web-based Enterprise Planning Excel interface leverages each of the enterprise properties that enable highly scalable and flexible planning, including workflow, collaboration, and data management. Enterprise Planning streamlines data collection with standardized data structures and definitions, and will eliminate redundant, unnecessary data input requirements. It is equipped with validation and verification functionality that requires reviewer submission at each hierarchical level, which provides improved data quality and consistency. This approval hierarchy for data verification and validation consists of the Washington office "owners" inputting the data, regional Assistant Regional Directors reviewing the data, then Regional Directors and Assistant Directors approving the data, before it is sent to the Planning and Evaluation Office for analysis. The Deputy Director then reviews the data and submits it to the Director for final approval. Only the "owner" of the worksheet has the rights to make changes to the numbers that have been submitted. All reviewers have the ability to reject the data that has been sent, or submit to the next level for review.

Data limitations do exist for some performance measures, such as that collected by outside sources. For example, Breeding Bird Survey data are provided by the U.S. Geological Survey-Biological Research Division.

## **Data Validity**

The goals directly measure the results that the organization hopes to achieve in the delivery of the core components of the mission. Data collected is relevant and presents an accurate picture of the performance of the organization toward achieving the goals. Performance data for goals is obtained by existing data collection processes and is supported by program information management systems. To a large degree, the Service must rely on the quality assurance/quality controls in place at the primary data source to ensure data accuracy.

## B. Management Controls and Legal Compliance

The Service is dedicated to maintaining integrity and accountability in all programs and operations. Service management assesses its systems of management, administrative, and financial controls to ensure that:

- Programs achieve their intended results
- Resources are used consistent with the Service's mission
- Resources are protected from waste, fraud, and mismanagement
- Laws and regulations are followed
- Reliable and timely information is maintained, reported, and used for decision making

The Service assesses the adequacy of its management controls through continuous monitoring and periodic evaluations, consistent with Office of Management and Budget (OMB) Circular A-123 "*Management Accountability and Control*", and the Federal Managers' Financial Integrity Act (FMFIA). Each year, the Service identifies specific management control assessments planned for the fiscal year. Beginning in FY 2006, the Service implemented the requirements of OMB Circular A-123, Appendix A, which resulted in a comprehensive evaluation of the Service's internal controls over financial reporting. The Service's A-123 assessment covered all of the business processes that generate amounts reported in the financial statement line items identified by DOI as material to the consolidated financial statements, as well as other processes material to the Service's financial statements. The results from these internal reviews as well as results in certain final audit reports issued primarily by the Office of Inspector General and the U.S. Government Accountability Office are considered in the development of the Service's annual assurance statement on management controls. The assurance statement also considers information obtained from the knowledge and experience management has gained from the daily operation of programs and systems of accounting and administrative controls. The statement informs DOI of the effectiveness of the Service's management controls, and includes information about any pending and new bureau-level material weaknesses and corrective actions.

In FY 2006, management control reviews were conducted in administrative, program, and information technology areas. No material weaknesses in internal control were identified. Corrective actions for the non-material control weaknesses are monitored until completion.

## C. Financial Highlights

### Service Financial Performance

In FY 2006, the Service continued to maintain the high quality and timeliness of its financial information. The Service's challenge remains to continue to process financial and related information in a timely and efficient manner.

The Service maintained strong transaction processing performance levels in FY 2006. The accounts receivable delinquency rate (excluding debts referred to the Department of the Treasury for action) was estimated to be 1% at end of FY 2006.

In FY 2006, the Service achieved 99% on time payment to its vendors, with only \$18,892 in late payment penalties on approximately \$384 million total payments to vendors. During the same period, 97% of the Service's payments to vendors and to other recipients were accomplished through the Electronic Funds Transfer (EFT).

Service charge cardholders and approving officials are regularly advised of their respective responsibilities under the charge card program. Failure to comply with charge card policy can create an environment open for delinquent account balances or unauthorized use of Service funds. For FY 2006, charge card accounts delinquent more than 60 days represented 1.2% of the total employee debt, which is less than the Federal Government FY 2006 performance objective of 2%.

As required by DOI, Service offices conducted risk assessments for improper payments by reviewing programs and activities according to departmental guidance. After performing risk identification and risk analysis, offices determined annual dollar volumes, annual estimated improper payment amounts, percentages of improper payments to dollar volumes, and risk ratings. No program in the Service received a high-risk rating for making significant improper payments.

### Improving Financial Transaction Processes and Results

The President's Management Agenda, Government-wide Initiatives, Improved Financial Performance section, challenges agencies to provide accurate and timely financial information. During FY 2006, the Service had in place numerous processes designed to improve the accuracy and timeliness of its financial reporting and information.

During FY 2006, the Service conducted a comprehensive evaluation of its internal controls over financial reporting in accordance with the requirements of OMB Circular A-123, Appendix A. The Service's evaluation covered all of the business processes that generate amounts reported in the financial statement line items identified by DOI as material to the consolidated DOI financial statements, as well as other processes material to the Service's financial statements. The Director provided a statement to the Assistant Secretary – Policy Management and Budget, stating that the Service provides reasonable assurance that the controls over financial reporting for the line items material to the Department were suitably designed and operating effectively.

As part of the President's Management Agenda, the OMB has established accelerated due dates for completing performance and accountability reports beginning in FY 2004. The DOI's Performance and Accountability Report is now due 45 days after the end of each fiscal year. The Service prepared timely comprehensive quarterly financial statements throughout FY 2006.

### Managing the Sport Fish Restoration Account (SFRA)

The Service's Sport Fish Restoration Account (SFRA) makes grants available to States to restore, conserve, manage, protect, enhance sport fish resources and coastal wetlands, and to enhance public use and benefits from sport fish resources. The source of funding for the SFRA is the Sport Fish Restoration and Boating Trust Fund (SFRBTF), which receives revenue through excise taxes levied on the sale of fishing tackle and equipment, certain motorboat and small engine gasoline, and interest earned on invested trust funds. In addition to the SFRA, the SFRBTF funds the Boating Safety Account, which provides funding for boating safety programs conducted by the U.S. Coast Guard and coastal wetlands initiatives conducted by the Corps of Engineers. Title 26 of the U.S. Code, Section 9602 designates the Department of the Treasury as manager of the SFRBTF, with overall responsibility for the fund's accounting and investment activities. The SFRBTF is presented on the Service's financial statements in accordance with the requirements of Statement of Federal Financial Accounting Standards (SFFAS) Number 27, *Identifying and Reporting Earmarked Funds*.

## **D. Limitations of the Financial Statements**

The Principal Financial Statements have been prepared to report the financial position and results of operations of the Service, pursuant to the requirements of 31.U.S.C. 3515(b). The statements have been prepared from the books and records of the Service in accordance with prescribed formats. The statements are different from the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The financial statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity, and that liabilities reported in the financial statements cannot be liquidated without legislation providing resources to do so.

## E. Analysis of Financial Statements

The Service produces audited annual financial statements that summarize its financial activity and financial position. The Principal Financial Statements include:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement of Budgetary Resources
- Consolidated Statement of Financing

The notes accompanying the financial statements provide additional detail and context concerning the information presented in the financial statements. Two other statements, the Consolidating Statement of Net Cost and the Combining Statement of Budgetary Resources, provide additional detail of information presented in the financial statements.

### Budgetary Resources

The Service obtains most of its funding from enacted appropriations. In FY 2006, the Service's appropriations totaled \$1.79 billion. Total budgetary resources available for use in FY 2006 were approximately \$3.09 billion. This includes budget authority, unobligated balances as of the beginning of the year, net transfers of budget authority, and spending authority from offsetting collections. In FY 2005, the Service's appropriation budget was \$2.17 billion, with total budgetary resources available for use amounting to about \$2.94 billion.

### Earned Revenue

In addition to appropriations, the Service obtains funding to support its programs from reimbursable agreements, where the Service receives compensation for services it provides to other Federal agencies and public entities. The Service also earns revenue from fees and collections relating to its various programs. In FY 2006, the Service recognized approximately \$220 million in earned revenue compared with \$188 million in FY 2005.

### Expenses

The Service's cost of operations before earned revenue for FY 2006 was approximately \$2.46 billion. The Service's cost of operations before earned revenue in FY 2005 was \$2.32 billion. The table below provides the Service's analysis of expenses by mission goal. Expenses relating to the Management Excellence mission goal, which includes Reimbursable Activities and Other, are considered immaterial.

Expenses by Mission Goals  
For the Years ended September 30, 2006 and 2005  
(dollars in millions)

Mission Goal	Amount of 2006 Expenses	Percentage of 2006 Expenses	Amount of 2005 Expenses	Percentage of 2005 Expenses
Resource Protection	\$1,717	70.0 %	\$ 1,560	67.3 %
Resource Use	10	.1	29	1.3
Recreation	517	20.9	564	24.3
Serving Communities	221	9.0	164	7.1
<b>Total</b>	<b>\$2,465</b>	<b>100 %</b>	<b>\$ 2,317</b>	<b>100.0 %</b>

## Assets

The largest portion of reported assets, approximately 35.3% as of September 30, 2006, is Treasury securities held by the Service representing invested amounts from the Federal Aid in Wildlife Restoration Fund (approximately \$495 million), the Service's component of SFRBTF (approximately \$955 million) and associated accrued interest (approximately \$6 million). As of September 30, 2005, approximately \$452 million was held in the Wildlife Restoration Fund. Prior to FY 2006, in accordance with the requirements of Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, the Service's financial statements presented SFRBTF information in its entirety. However, the implementation of SFFAS 27, paragraph 38, amended that requirement. Effective for FY 2006, the financial statements and footnotes for the Service only present the Service's component of the SFRBTF. Comparative information on the Service's component of the SFRBTF as of September 30, 2005 is not available.

The Service's Fund Balance with the Department of the Treasury as of September 30, 2006 is approximately \$1.64 billion, or approximately 39.7% of Service assets. As of September 30, 2005, the Service's fund balance with the Department of the Treasury was \$1.46 billion, or 32.9% of total assets. The portion of this balance available to the Service at any point in time depends on the terms of the Service's appropriation language, and other applicable statutes.

The Service's investment in Property, Plant, and Equipment (PP&E), net of accumulated depreciation, is approximately \$975 million, or approximately 23.6% of Service assets. As of September 30, 2005, the Service's net PP&E was \$917 million, representing about 20.7% of Service assets. The Service does not report stewardship property, such as NWR lands and waterfowl production areas, in its financial statements. The Service also excludes heritage assets from its reports, such as land, buildings, and structures recognized for their ecological, cultural, historical, and scientific importance. Stewardship and heritage assets are not recognized as having an identifiable financial value that can be quantified on financial statements. In accordance with the requirements of the SFFAS Number 6, *Accounting for Property, Plant and Equipment*, purchases of these assets are considered expenses of the accounting period they are acquired.

## Liabilities and Net Position

The Service has approximately \$136 million in unfunded liabilities to the public, which cannot be paid until Congress appropriates funds in future periods. At the end of FY 2005, the Service had \$200 million in unfunded liabilities to the public. These liabilities consist primarily of unfunded annual leave and the Service's actuarial Federal Employees Compensation Act (FECA) liability. They also include environmental and disposal liabilities, representing the future costs of remediating hazardous waste, and landfills existing on Service lands.

### Unfunded Liabilities to the Public as of September 30, 2006 and 2005 (dollars in millions)

Unfunded Liabilities	2006	2005
Federal Employees Compensation Act	\$ 63	\$ 62
Unfunded Annual Leave	50	49
Environmental Cleanup	22	14
Other	1	75
<b>Total</b>	<b>\$ 136</b>	<b>\$ 200</b>

The Service's Net Position consists of two components:

- Unexpended Appropriations
- Cumulative Results of Operations

The Unexpended Appropriations amount reflects spending authority made available to the Service by Congressional appropriation that the Service has not yet used. The Cumulative Results of Operations amount reflects the net results of the Service's operations over time. Beginning in FY 2006, these components are further broken out by earmarked and other funds, in accordance with SFFAS Number 27, *Identifying and Reporting Earmarked Funds*. Earmarked funds address specifically identified revenues, frequently supplemented by other financing sources that remain available to the Service over time, have legislatively mandated usage for designated activities, benefits, or purposes, and require separate accounting from the government's general revenues.

The Service's Net Position as of September 30, 2006 is approximately \$3.69 billion, of which approximately \$509 million is Unexpended Appropriations. Approximately \$81 million of the Unexpended Appropriations relate to earmarked funds. About \$3.18 billion of the Service's net position is Cumulative Results of Operations, of which \$2.32 billion relates to earmarked funds. The Service's Net Position, as of September 30, 2005 was \$3.66 billion, of which \$536 million was Unexpended Appropriations and \$3.12 billion was Cumulative Results of Operations.

### **III. U.S. Fish and Wildlife Service Financial Statements**

The Service Financial Statements section covers the following areas:

- A. Principal Financial Statements
- B. Notes to Principal Financial Statements
- C. Required Supplementary Information (RSI)
- D. Required Supplementary Stewardship Information (RSSI)

## A. Principal Financial Statements

U.S. Department of the Interior  
U.S. Fish and Wildlife Service  
Consolidated Balance Sheet  
as of September 30, 2006  
(dollars in thousands)

	<u>2006</u>
<b>ASSETS (Note 2)</b>	
<b>Intragovernmental Assets:</b>	
Fund Balance with Treasury (Note 3)	\$ 1,638,372
Investments, Net (Note 4)	1,455,757
Accounts and Interest Receivable (Note 5)	35,668
Other	697
<b>Total Intragovernmental Assets</b>	<u>3,130,494</u>
Cash (Note 3)	37
Accounts and Interest Receivable, Net (Note 5)	16,142
General Property, Plant and Equipment, Net (Note 6)	974,702
Other	282
<b>TOTAL ASSETS</b>	<u><u>\$ 4,121,657</u></u>
Stewardship Assets (Note 1.G.3)	
 <b>LIABILITIES (Note 8)</b>	
<b>Intragovernmental Liabilities:</b>	
Accounts Payable	\$ 5,236
Other	
Accrued Employee Benefits	21,744
Advances, Deferred Revenue and Deposit Funds	1,094
<b>Total Intragovernmental Liabilities</b>	<u>28,074</u>
Accounts Payable	78,348
Federal Employee and Veteran Benefits	62,810
Environmental and Disposal Liabilities (Note 8)	22,113
Other	
Accrued Employee Payroll and Benefits	71,756
Advances, Deferred Revenue and Deposit Funds	10,847
Contingent Liabilities (Note 8)	242
Other Liabilities	157,531
<b>TOTAL LIABILITIES</b>	<u>431,721</u>
Commitments and Contingencies (Notes 8 and 9)	
 <b>Net Position</b>	
Unexpended Appropriations - Earmarked Funds (Note 11)	80,977
Unexpended Appropriations - Other Funds	428,310
Cumulative Results of Operations - Earmarked Funds (Note 11)	2,323,050
Cumulative Results of Operations - Other Funds	857,599
<b>Total Net Position</b>	<u>3,689,936</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 4,121,657</u></u>

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Interior  
U.S. Fish & Wildlife Service  
Consolidated Balance Sheet  
as of September 30, 2005  
(dollars in thousands)

	<u>2005</u>
<b>ASSETS (Note 2)</b>	
<b>Intragovernmental Assets:</b>	
Fund Balance with Treasury (Note 3)	\$ 1,457,266
Investments, Net (Note 4)	1,999,112
Accounts and Interest Receivable (Note 5)	28,913
Other	<u>1,368</u>
<b>Total Intragovernmental Assets</b>	<b>3,486,659</b>
 Cash (Note 3)	 51
Accounts and Interest Receivable, Net (Note 5)	22,003
General Property, Plant and Equipment, Net (Note 6)	917,489
Other	
Advances and Prepayments	<u>210</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 4,426,412</u></b>
Stewardship Assets (Note 1.G.3)	
 <b>LIABILITIES (Note 8)</b>	
<b>Intragovernmental Liabilities:</b>	
Accounts Payable	\$ 6,991
Aquatic Resources Trust Fund Amounts Due to Others	439,930
Other	
Accrued Employee Benefits	21,108
Advances and Deferred Revenue	976
Other Liabilities	<u>1,926</u>
<b>Total Intragovernmental Liabilities</b>	<b><u>470,931</u></b>
 Accounts Payable	 59,301
Federal Employee and Veteran Benefits	62,270
Environmental and Disposal Liabilities (Note 8)	14,033
Other	
Accrued Employee Payroll and Benefits	72,876
Advances, Deferred Revenue and Deposit Funds	8,561
Contingent Liabilities (Note 8)	100
Other Liabilities	<u>78,364</u>
<b>TOTAL LIABILITIES</b>	<b><u>766,436</u></b>
Commitments and Contingencies (Notes 8 and 9)	
 <b>Net Position</b>	
Unexpended Appropriations	536,093
Cumulative Results of Operations	<u>3,123,883</u>
<b>Total Net Position</b>	<b><u>3,659,976</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 4,426,412</u></b>

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Interior  
U.S. Fish and Wildlife Service  
Consolidated Statement of Net Cost  
for the years ended September 30, 2006 and 2005  
(dollars in thousands)

	<u>2006</u>	<u>2005</u>
<b>Resource Protection</b>		
Costs	\$ 1,716,569	\$ 1,559,529
Less: Earned Revenue	<u>191,482</u>	<u>150,810</u>
<b>Net Cost</b>	<u><b>1,525,087</b></u>	<u><b>1,408,719</b></u>
<b>Resource Use</b>		
Costs	9,569	28,743
Less: Earned Revenue	<u>77</u>	<u>240</u>
<b>Net Cost</b>	<u><b>9,492</b></u>	<u><b>28,503</b></u>
<b>Recreation</b>		
Costs	517,070	564,384
Less: Earned Revenue	<u>14,931</u>	<u>22,538</u>
<b>Net Cost</b>	<u><b>502,139</b></u>	<u><b>541,846</b></u>
<b>Serving Communities</b>		
Costs	221,347	164,032
Less: Earned Revenue	<u>13,091</u>	<u>13,729</u>
<b>Net Cost</b>	<u><b>208,256</b></u>	<u><b>150,303</b></u>
<b>Reimbursable Activity and Other</b>		
Costs	-	24
Less: Earned Revenue	<u>-</u>	<u>773</u>
<b>Net Cost</b>	<u><b>-</b></u>	<u><b>(749)</b></u>
<b>Total</b>		
Costs	2,464,555	2,316,712
Less: Earned Revenue	<u>219,581</u>	<u>188,090</u>
<b>Net Cost of Operations (Note 14)</b>	<u><b>\$ 2,244,974</b></u>	<u><b>\$ 2,128,622</b></u>

The accompanying notes are an integral part of these financial statements.

U. S. Department of the Interior  
U.S. Fish and Wildlife Service  
Consolidated Statement of Changes in Net Position  
for the years ended September 30, 2006 and 2005  
(dollars in thousands)

	2006			Total
	Earmarked Funds	All Other Funds	Total 2006	2005
<b>UNEXPENDED APPROPRIATIONS</b>				
Beginning Balance	\$ 87,681	\$ 448,412	\$ 536,093	501,981
<b>Budgetary Financing Sources</b>				
Appropriations Received, General Funds	74,867	1,249,483	1,324,350	1,176,585
Appropriations Transferred In/(Out)	-	89,183	89,183	86,270
Appropriations-Used	(80,983)	(1,342,780)	(1,423,763)	(1,212,825)
Other Adjustments	(588)	(15,988)	(16,576)	(15,918)
<b>Total Budgetary Financing Sources</b>	<b>(6,704)</b>	<b>(20,102)</b>	<b>(26,806)</b>	<b>34,112</b>
<b>Ending Balance - Unexpended Appropriations</b>	<b>\$ 80,977</b>	<b>\$ 428,310</b>	<b>\$ 509,287</b>	<b>\$ 536,093</b>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>				
Beginning Balance	\$ 2,390,470	\$ 733,413	\$ 3,123,883	\$ 3,039,503
<b>Adjustments</b>				
Changes in Accounting Principles (Note 1.B)				
Sport Fish Restoration and Boating Trust Fund	(192,763)	-	(192,763)	-
Federal Highways Trust Fund	(14,578)	-	(14,578)	-
<b>Beginning Balance, as adjusted</b>	<b>2,183,129</b>	<b>733,413</b>	<b>2,916,542</b>	<b>3,039,503</b>
<b>Budgetary Financing Sources</b>				
Appropriations-Used	80,983	1,342,780	1,423,763	1,212,825
Royalties Retained	1,608	-	1,608	1,036
Non-Exchange Revenue	741,239	2,288	743,527	793,791
Transfers In/(Out) without Reimbursement	237,931	22,451	260,382	127,309
Donations and Forfeitures of Cash and Cash Equivalents	3,093	-	3,093	3,287
Other Budgetary Financing Sources	-	8,671	8,671	8,404
<b>Other Financing Sources</b>				
Imputed Financing from Costs Absorbed by Others (Note 10)	5,188	56,366	61,554	62,061
Transfers In/(Out) without Reimbursement	(57,838)	64,321	6,483	4,289
<b>Total Financing Sources</b>	<b>1,012,204</b>	<b>1,496,877</b>	<b>2,509,081</b>	<b>2,213,002</b>
<b>Net Cost of Operations</b>	<b>(872,283)</b>	<b>(1,372,691)</b>	<b>(2,244,974)</b>	<b>(2,128,622)</b>
<b>Net Change</b>	<b>139,921</b>	<b>124,186</b>	<b>264,107</b>	<b>84,380</b>
<b>Ending Balance - Cumulative Results of Operations</b>	<b>\$ 2,323,050</b>	<b>\$ 857,599</b>	<b>\$ 3,180,649</b>	<b>\$ 3,123,883</b>
<b>TOTAL NET POSITION</b>	<b>\$ 2,404,027</b>	<b>\$ 1,285,909</b>	<b>\$ 3,689,936</b>	<b>\$ 3,659,976</b>

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Interior  
U.S. Fish and Wildlife Service  
Combined Statement of Budgetary Resources  
for the years ended September 30, 2006 and 2005  
(dollars in thousands)

	Total Budgetary Accounts	
	2006	2005
<b>Budgetary Resources:</b>		
Unobligated Balance, Beginning of Fiscal Year:	\$ 668,676	\$ 663,852
Recoveries of Prior Year Unpaid Obligations	65,846	81,120
Budget Authority		
Appropriation	1,791,245	2,169,124
Spending Authority from Offsetting Collections		
Earned		
Collected	214,103	162,002
Change in Receivables from Federal Sources	(1,319)	12,345
Change in Unfilled Customer Orders		
Advance Received	2,087	838
Without Advance from Federal Sources	(65,749)	(11,140)
Total Budget Authority	1,940,367	2,333,169
Nonexpenditure Transfers, Net, Anticipated and Actual	440,520	(122,472)
Temporarily Not Available Pursuant to Public Law	(6,067)	(3,030)
Permanently Not Available	(16,576)	(15,919)
<b>Total Budgetary Resources</b>	<b>\$ 3,092,766</b>	<b>\$ 2,936,720</b>
<b>Status of Budgetary Resources:</b>		
Obligations Incurred:		
Direct	\$ 2,274,042	\$ 2,105,297
Reimbursable	128,754	162,747
Total Obligations Incurred (Note 12)	2,402,796	2,268,044
Unobligated Balance Available:		
Apportioned	688,333	666,380
Unobligated Balance Not Available	1,637	2,296
<b>Total Status of Budgetary Resources</b>	<b>\$ 3,092,766</b>	<b>\$ 2,936,720</b>
<b>Change in Obligated Balance:</b>		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, Beginning of Fiscal Year	\$ 1,431,938	\$ 1,363,399
Less: Uncollected Customer Payments from Federal Sources,		
Brought Forward, Beginning of Fiscal Year	(144,996)	(143,791)
Total Unpaid Obligated Balances, Net	1,286,942	1,219,608
Obligations Incurred, Net	2,402,796	2,268,044
Less: Gross Outlays	(2,249,141)	(2,118,385)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(65,846)	(81,120)
Change in Uncollected Customer Payments from Federal Sources	67,068	(1,205)
<b>Total Unpaid Obligated Balance, Net, End of Period</b>	<b>\$ 1,441,819</b>	<b>\$ 1,286,942</b>
<b>Obligated Balance, Net, End of Period - By Component</b>		
Unpaid Obligations	1,519,748	1,431,938
Less: Uncollected Customer Payments from Federal Sources	(77,929)	(144,996)
<b>Total Unpaid Obligated Balance, Net, End of Period</b>	<b>\$ 1,441,819</b>	<b>\$ 1,286,942</b>
<b>Net Outlays:</b>		
Net Outlays		
Gross Outlays	\$ 2,249,141	\$ 2,118,385
Less: Offsetting Collections	(216,190)	(162,840)
Less: Distributed Offsetting Receipts (Note 12)	(75,625)	(35,186)
<b>Net Outlays(Receipts)</b>	<b>\$ 1,957,326</b>	<b>\$ 1,920,359</b>

The accompanying notes are an integral part of these financial statements.

U.S. Department of the Interior  
U.S. Fish and Wildlife Service  
Consolidated Statement of Financing  
for the years ended September 30, 2006 and 2005  
(dollars in thousands)

	2006	2005
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 2,402,796	\$ 2,268,044
Less: Spending Authority From Offsetting Collection/Recoveries	(214,968)	(245,165)
Obligations Net of Offsetting Collections and Recoveries	2,187,828	2,022,879
Less: Offsetting Receipts	(75,625)	(35,186)
Net Obligations	2,112,203	1,987,693
Other Resources:		
Transfers In/Out Without Reimbursement	6,483	4,289
Imputed Financing From Costs Absorbed by Others	61,554	62,061
Net Other Resources Used to Finance Activities	68,037	66,350
<b>Total Resources Used to Finance Activities</b>	<b>2,180,240</b>	<b>2,054,043</b>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	81,529	(78,097)
Increase (Decrease) in Unfilled Customer Orders	(63,662)	(10,302)
Resources That Fund Expenses Recognized in Prior Periods (Note 1.M)	(74,382)	107
Budgetary Offsetting collections and Receipts That Do Not Affect Net Cost of Operations:		
Offsetting Receipts Not Part of the Net Cost of Operations	38,111	(5,565)
Resources That Finance the Acquisition of Assets (Note 1.M)	(112,661)	(92,460)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations (Note 1.M)	24,045	21,664
Total Resourcees Used to Finance Items Not Part of the Net Cost of Operations	(107,020)	(164,653)
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>2,073,220</b>	<b>1,889,390</b>
<b>Components of Net cost of Operations That Will Not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Periods:		
Increase (Decrease) in Annual Leave Liability	613	1,054
Increase (Decrease) in Environmental and Disposal Liability	8,080	1,159
Other (Note 1.M)	-	58,478
<b>Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods</b>	<b>8,693</b>	<b>60,691</b>
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	52,152	61,959
Revaluation of Assets or Liabilities (Note 1.M)	3,358	17,838
Allocation Transfers Reconciling Items (Note 13)	107,517	98,750
Other	34	(6)
<b>Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>	<b>163,061</b>	<b>178,541</b>
<b>Total Components of Net Cost of Operations That Will Not Require or Generate Resources</b>	<b>171,754</b>	<b>239,232</b>
<b>Net Cost of Operations</b>	<b>\$ 2,244,974</b>	<b>\$ 2,128,622</b>

The accompanying notes are an integral part of these financial statements.

## B. Notes to Principal Financial Statements

### Note 1 - Summary of Significant Accounting Principles

#### A. Reporting Entity

The Service is a bureau within the DOI, a cabinet-level agency of the Federal Government's Executive Branch. The Service is responsible for conserving, protecting, and enhancing fish, wildlife and plants, and their habitats for the continuing benefit of the American people. Authority over money or other budget authority made available to the Service is vested in the Service's Director, who is responsible for administrative oversight and policy direction of the Service. Accounts are maintained that restrict the use of money (or other budget authority) consistent with the purposes and within the authorized timeframe. These accounts also provide assurance that obligations do not exceed authorized amounts.

#### B. Basis of Accounting and Presentation

Reflecting the status of the Service as a component entity of DOI, these financial statements have been prepared to report the financial position, net cost of operations, changes in net position, budgetary resources, and financing of the Service as required by the Chief Financial Officers Act of 1990, as amended by the Reports Consolidation Act of 2000, and the Government Management Reform Act of 1994. The financial statements have been prepared from the Service's books and records in accordance with the guidance provided in OMB Circular A-136, *Financial Reporting Requirements* revised July 24, 2006, as required for FY 2006 and 2005. Furthermore, the financial statements have been prepared in accordance with the Service's accounting policies summarized in this note.

The accounting records are maintained and these financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP), as prescribed by the Federal Accounting Standards Advisory Board (FASAB), recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish GAAP for the Federal government under Rule 203 of the AICPA's Code of Professional Conduct. The financial statements reflect both accrual and budgetary accounting transactions. Under the accrual accounting method, revenue is recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting principles, by contrast, are designed to recognize the obligation of funds according to legal requirements, which may be prior to the occurrence of accrual-based transactions. The recognition of budgetary accounting transactions facilitates compliance with legal constraints and controls over the use of Federal funds. The accounts are maintained in accordance with the Department of the Treasury's U.S. Standard General Ledger.

Two statements of SFFAS have impacted the presentation of the Service's financial statements in FY 2006: SFFAS Number 27, *Identifying and Reporting Earmarked Funds*, and SFFAS Number 29, *Heritage Assets and Stewardship Land*. Notes 1.B.3 and Note 11, both titled, *Earmarked Funds*, provide further discussion. Note 1.G.3 discusses PP&E. The financial statements also reflect the effects of several OMB revisions. Most significant among the OMB revisions is the revamping of the Standard Form (SF) 133, *Report on Budget Execution and Budgetary Resources* which culminated in a revised format for the Combined Statement of Budgetary Resources (SBR) as well as additional footnote disclosure.

Effective with its April 2006 publication of Treasury Financial Manual Bulletin Number 2006-05, *Redistribution of Clearing (Suspense) Accounts and Certain Miscellaneous Receipts*, the Financial Management Service in collaboration with OMB determined that clearing accounts and certain miscellaneous receipt accounts were to be distributed against the budgets of the agencies that collect the receipts, carry out activities that result in these collections, and have the supporting documentation, instead of being distributed against the Treasury. Accordingly, the SBR for the Service presents the aggregate of cash collected in those receipt accounts as distributed offsetting receipts.

Note 12, *Combined Statement of Budgetary Resources (SBR)* provides further discussion of the impact of Treasury Financial Manual Bulletin No. 2006-05 and the revised SBR format.

For reporting purposes, SFFAS 27 as well as OMB Circular A-136 have resulted in

two changes in accounting principles, both relating to a change in reporting entity. The first change involves the SFRBTF, while the second entails allocation transfers with the Department of Transportation. Note 13, *Consolidated Statement of Financing*, provides further discussion of the parent child reporting requirements.

The Service uses operating funds of the U.S. Department of Labor to participate in its Job Corps Program, dedicated to training and educating at-risk young people aged between 16 and 24 years old. Effective July 1, 2006 the Service transferred its operation of the Treasure Lake Job Corps Civilian Conservation Center to the Bureau of Reclamation. Consequently, the Service financial statements only present nine months of activity for Job Corps.

The financial statements have been prepared from the books and records of the Service except for certain Department of the Treasury provided amounts relating to SFRBTF, previously known as the Aquatic Resources Trust Fund (ARTF). Title 26 of the U.S. Code, Section 9602 designates the Department of the Treasury as manager of the SFRBTF, with overall responsibility for the fund's accounting and investment activities. Previously as the entity with the preponderance of activity, the Service complied with the requirements of the Statement of Federal Financial Accounting Concepts (SFFAC) Number 2, *Entity and Display* footnote 3 by presenting SFRBTF information as part of the Service's financial statements. However, SFFAS 27 amends SFFAC 2, footnote 3 and required, identifiable separate portions of a trust fund involving multiple responsible entities. As of fiscal year 2006, each component entity will present its own separate portion of the program in its financial statements. Accordingly, the financial statements of the Service reflect only its portion of the SFRBTF held for the SFRA. The financial statements for the U.S. Army Corps of Engineers and the United States Coast Guard should reflect their components of the SFRBTF in the Consolidated Financial Statements for the U.S. Army and Homeland Security, respectively. Note 4, *Investments, Net*; Note 8, *Liabilities Analysis*; and Note 11, *Earmarked Funds* provide further discussion.

As of September 30, 2006, the SFRA received approximately 75% of the SFRBTF nonexpenditure transfers as compared to 76% as of September 30, 2005.

The financial statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity. Legislation must provide resources and legal authority in order to liquidate liabilities. Intragovernmental assets and liabilities arise from transactions with other Federal agencies.

The Service maintains accounts in three separate budgetary categories:

- Resource Management
- Grant Programs
- Earmarked Funds

## **1. Resource Management**

This category includes expenditure accounts arising from Congressional appropriations or other authorizations to spend general revenue. The principal resource management accounts are:

- Resource Management, Operating
- Resource Management, Federal Infrastructure Improvement

## **2. Grant Programs**

The Service administers 14 budgetary accounts for grant programs established under specific trust agreements and statutes. The 10 major categories of grant programs are:

- A. Sport Fish Restoration
- B. Federal Aid in Wildlife Restoration
- C. Other grant programs
  - Wildlife Conservation (two budgetary accounts)
  - North American Wetlands Conservation

- State Wildlife Grants
- Tribal Wildlife Grants
- Landowner Incentive
- Cooperative Endangered Species Conservation Fund
- Private Stewardship Grants
- Multinational Species Conservation Fund (four budgetary accounts)

### 3. Earmarked Funds

Earmarked funds address specifically identified revenues, frequently supplemented by other financing sources that remain available to the Service over time, have legislatively mandated usage for designated activities, benefits, or purposes, and require separate accounting from the government's general revenues.

The Service has designated as "major" those funds whose individual assets and total net position represent more than four percent of the Service's Total Assets and Total Net Position.

Accordingly, the Service's financial statements reflect the balances of five major earmarked funds:

- The Service's component of SFRBTF
- Federal Aid in Wildlife Restoration Fund
- Cooperative Endangered Species Fund
- State Wildlife Grants Fund
- Sport Fish Restoration

Previously, in accordance with the requirements of SFFAC 2, the Service's financial statements presented SFRBTF information in its financial statements in its entirety. However, SFFAS 27, paragraph 38, amended that requirement. Effective 2006, the financial statements and footnotes for the Service only present the Service's component of the SFRBTF.

Earmarked funds, other than major, encompass the following:

- North American Wetlands Land and Water Conservation Fund (LWCF)
- North American Wetlands Conservation
- Landowner Incentive Program
- Land Acquisition
- Migratory Bird
- Private Stewardship Grants
- National Wildlife Refuge Fund
- Contributed Funds
- Recreational Fee Demonstration Program
- Operation & Maintenance – Quarters
- Lahontan Valley/Pyramid Lake
- Proceeds from Sales – Water
- Federal Infrastructure Improvement
- Wildlife Conservation and Appreciation Fund
- Cooperative Endangered Species Conservation

Note 11, *Earmarked Funds*, provides further discussion.

### C. Fund Balance with the Department of the Treasury and Cash

The Service maintains all cash accounts with the Department of the Treasury except for the imprest fund accounts. The funds with the Department of the Treasury include appropriated, special receipt, and trust funds, which are available to pay current liabilities and outstanding obligations. Cash receipts and disbursements of the Service are processed by the Department of the Treasury, and the Service's accounts are regularly reconciled with those of the Department of the Treasury.

### D. Investments in Treasury Securities

The Service invests funds from the Federal Aid in Wildlife Restoration Fund (Treasury Symbol 14X5029), the Multinational Species Conservation Fund (Treasury

Symbol 14X1652) in non-marketable market-based Treasury securities issued by the Federal Investment Branch of the Bureau of Public Debt. Market-based securities are Treasury securities that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. The Service intends to hold these investments until maturity. Investments are valued at cost and adjusted for amortization of premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the straight-line method. No provision is made for unrealized gains or losses on these securities. Interest on investments is accrued as it is earned.

The Department of the Treasury (see below, Note 1.E, *Accounts and Interest Receivable*) manages the investments reported by the Service for SFRBTF (Treasury Symbol 20X8147). Although the Service has advisory authority for SFRBTF investment decisions, the Department of the Treasury has legal responsibility for investing SFRBTF funds. Consistent with authorizing legislation and the Department of the Treasury fiscal investment policies, the Secretary of the Department of the Treasury invests such portion of the SFRBTF balance deemed by the program agencies not necessary to meet current withdrawals to cover program and related costs as defined by law. These investments of legislatively authorized non-marketable market-based securities are issued and redeemed by the Federal Investment Branch of the Bureau of Public Debt, in the Department of the Treasury. Investments are held in the name of the Secretary of the U.S. Department of the Treasury for the SFRBTF, and accrue interest as it is earned. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method. Although funds collected and deposited in the SFRBTF in any one fiscal year are available for investment during the same fiscal year collected, they are not available for obligation that same year. Thus, the use of such funds collected from a prior fiscal year is restricted until the following fiscal year.

Note 4, *Investments, Net*, provides additional information on Service and SFRBTF investments.

#### **E. Accounts and Interest Receivable**

Receivables represent amounts owed to the Service by other Federal agencies and the public, and include accounts and interest receivable. Accounts receivable primarily arise from the provision of goods and services or from the levy of fines and penalties resulting from the Service's regulatory responsibilities. Interest receivable consists primarily of amounts earned, but not yet received from Service investments. An allowance for doubtful accounts is maintained to reflect uncollectible receivables from the public. The allowance amount is estimated based on an average of prior year write-offs and an analysis of outstanding accounts receivable. Federal accounts receivable are considered to be fully collectible.

#### **F. Operating Materials and Supplies**

Operating materials and supplies consist of items such as lumber, sand, gravel, and other items purchased in large quantities, which will be consumed in current and future operations. Operating materials and supplies are accounted for based on the purchase method. Under this method, operating materials and supplies are expensed when purchased.

## **G. Property, Plant, and Equipment**

### **1. General Property, Plant, and Equipment (PP&E)**

General PP&E consists of that property which is used in Service operations. General PP&E includes buildings, structures, facilities, and equipment used in the operation of wildlife refuges, fish hatcheries, wildlife and fishery research centers, waterfowl production areas, and administrative sites. The real property capitalization threshold is \$100,000 for the Service. Capitalized buildings and structures have a cumulative acquisition cost of \$100,000 or more. Buildings and structures are reported in the financial statements based on legal ownership. Buildings are comprised of facilities owned by the Service, such as houses, garages, shops, schools, laboratories, and other buildings. Structures and facilities owned by the Service include powerhouses and pumping plants, structural and general service facilities systems (e.g., drainage, plumbing, sewer, ventilating, water or heating systems), ground and site improvements (e.g., roads and roadways, fences, parking areas, sidewalks, sprinkler systems, yard drainage systems, or yard lighting systems), bridges and trestles, dams, and waterways and wells. Capitalized costs include materials, labor, and overhead costs incurred during construction, attorney and architect fees, and building permits. Permanent improvements to stewardship land, including earthen structures, such as canals, dikes, levees, and dirt roads, are not capitalized. Depreciation of buildings and other structures is recorded using the straight-line method based on an estimated useful life of 10 to 40 years.

Note 6, *General Property, Plant and Equipment (PP&E) Net*, provides additional information

Investments in improvements to buildings, structures and facilities leased by the Service are capitalized if they exceed the capitalization threshold for real property. Leasehold improvements are amortized using the straight-line method over their estimated useful life or the term of lease, whichever is less.

Capitalized equipment consists of those assets, other than buildings or other structures, which have an estimated useful life of two or more years and an initial acquisition cost of \$15,000 or more. Depreciation of equipment is recorded using the straight-line method based on the estimated useful life of the respective assets of 5 to 20 years.

### **2. Construction Work in Progress (CWIP)**

CWIP is used for the accumulation of the cost of construction or major renovation of real property during the construction period. Costs are transferred out of CWIP when they meet the criteria for capitalization.

### **3. Stewardship Property, Plant, and Equipment**

SFFAS Number 6, *Accounting for Property, Plant, and Equipment*, established various categories of stewardship PP&E including stewardship land and heritage assets. A portion of the Service's stewardship lands has been reserved for wildlife refuges while the remainder is managed for multiple uses. Heritage assets are assets with historical, cultural, or natural significance. In accordance with Federal accounting standards, the Service assigns no financial value in its financial statements to the stewardship lands or heritage assets it administers. Acquisition costs for stewardship assets and any permanent improvements to these assets are expensed in the accounting period incurred.

The Service manages stewardship lands within the NWRS so that the fish, wildlife, and plants that depend on these lands for habitat are benefited over the short and long term. Stewardship of the nation's fishery and aquatic resources, through the National Fish Hatcheries System (NFHS), is a core responsibility of the Service. Although the Service does not own all the lands and facilities in the NFHS, the Service participates in managing all units within the system. The Service defines a unit of stewardship land as a Natural Wildlife Refuge, a National Fish Hatchery, a Wetland Management District, or other Presidentially, Congressionally, or Secretarially designated area of land that the Service manages. Lands are acquired through a variety of methods, including withdrawal from the public domain, fee title purchase, transfer of jurisdiction, donation, or gift. Lands are purchased through two primary sources of funding, the Migratory Bird Conservation Fund and the LWCF. Stewardship lands managed by the Service are used and managed in accordance with the explicit purpose of the statutes that authorize their acquisition or designation and that direct their use and management.

Heritage assets are those lands, buildings, and structures, and associated resources recognized for their ecological, cultural, historical, and scientific importance. The Service's heritage assets can be divided into collectible heritage assets and non-collectible heritage assets. For collectible heritage assets, the Service adheres to the major categories of museum property identified by DOI. The Service reports at the-collection level for these categories.

For non-collectible heritage assets, the Service reports on the following categories: National Historic Landmarks, National Monuments, National Natural Landmarks, National Recreation Trails, National Wild and Scenic Rivers, and Wilderness Areas.

Service heritage assets (collectible and non-collectible), such as those noted as National Historic Landmarks, are important assets to the Service because their protection and preservation is required through various laws including the National Historic Preservation Act and the Archaeological Resources Protection Act, as well as Executive Order 13287 "Preserve America". For the Service, these assets represent integral components of the habitat that many Refuges and Hatcheries are charged with preserving. The Wildlife Refuge System Improvement Act of 1997 draws special attention to the importance of cultural resource and heritage asset data in the formulation of Comprehensive Conservation plans for refuges.

Heritage assets also form an important part of education and/or interpretation programs conducted on refuges. In addition, the NWRS Volunteer and Community Partnerships Act of 1998 encourages the use of heritage assets for partnering purposes. Heritage assets are of great interest to many partnerships and community involvement groups for their historical value. In addition, many refuges have close ties with Native Americans who place considerable importance on heritage and the preservation of the physical manifestations of history.

#### **4. Internal Use Software**

Internal Use Software is capitalized if the acquisition cost is \$100,000 or more. For commercial off-the-shelf software, the capitalized costs include the amount paid to the vendor for the software; for contractor-developed software, it includes the amount paid to a contractor to design, program, install, and implement software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage. The estimated useful life for calculating amortization of software is 2 to 5 years using the straight-line method.

#### **5. Leases**

The Service leases certain PP&E for its operations. All of the Service's leases are considered operating leases in which the Service does not assume the risks of ownership of the PP&E. Note 9, *Operating Leases*, provides additional information on the Service's operating leases.

### **H. Seized and Forfeited Property**

Property seized by or forfeited to the Service consists primarily of wildlife and wildlife products. A smaller number of non-wildlife property items, such as guns, ammunition, or forensic evidence, is also seized by or forfeited to the Service. The Service is responsible for safeguarding seized and forfeited property from the time of seizure through the final disposition of the property. Methods of disposing of seized and forfeited property include retaining the property in the Service for educational purposes, transferring the property to other Federal entities, returning the property to the owner, or disposing of the property through destruction, sale, donation, or other methods authorized by law. Property for which a legal market exists is reported at appraised value or at values received at auction. Property that cannot be legally sold (e.g., all or parts of migratory birds, bald and golden eagles, endangered or threatened species, marine mammals, and species listed on Appendix I to the Convention on International Trade in Endangered Species) is classified as "non-marketable" and has no legal value.

### **I. Liabilities and Contingencies**

Note 7, *Seized and Forfeited Property*, provides additional information on seized and forfeited property.

## **J. Revenue and Other Financing Sources**

A liability is a probable and measurable outflow or other sacrifice of resources resulting from past transactions or events. Intragovernmental liabilities arise from transactions with other Federal agencies. Liabilities Not Covered by Budgetary Resources result from the receipt of goods or services, or the occurrence of events, for which budgetary resources are not available. A liability cannot be paid absent appropriation of funds by Congress, and there is no certainty that such budgetary resources will be provided. The Federal government, acting in its sovereign capacity, can abrogate those liabilities that arise for reasons other than through contracts.

The Service's component of liabilities of the SFRBTF are the amount of funds resulting from the original budget authority for a fiscal year less the draw down of cash transferred during that same fiscal year.

Contingent liabilities relate to conditions, situations, or circumstances where the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The Service recognizes contingent liabilities when a future outflow or other sacrifice of resources is both measurable and probable.

### **1. Appropriations**

The Service receives the majority of the funding needed to support its programs through appropriations. The Service receives annual, multi-year, and no-year appropriations that may be used within statutory limits for operating expenses and capital expenditures. Additional amounts are obtained through reimbursements for services provided to public entities and other Federal agencies in accordance with reimbursable agreements. Receipts from reimbursable agreements are recognized as revenue when earned, and may be used to offset the cost of operations, including indirect costs.

The Combined Statement of Budgetary Resources presents information about the resources appropriated to the Service.

### **2. Exchange and Non-exchange Revenue**

The Service classifies revenue as either exchange or non-exchange revenue. Exchange revenue derives from transactions in which both the Service and the other party receive value. This revenue is presented in the Consolidated Statement of Net Cost. The non-exchange revenue results from donations to the government and from the government's sovereign right to demand payment, including fines for violation of environmental laws. This revenue is not considered as reductions of the cost of the Service's operations and is reported on the Consolidated Statement of Changes in Net Position. Significant funding is made available to support Service programs from tax revenue, which is recognized when earned.

This tax revenue emanates from excise taxes, collected from manufacturers of equipment used in hunting, fishing, sport shooting on ranges, and on motorboat fuels, which are deposited into either the Wildlife Restoration Fund or the SFRBTF.

### **3. Imputed Financing Sources**

In certain instances, operating costs of the Service are paid from funds appropriated to other Federal agencies. As an example, the Office of Personnel Management (OPM), by law, pays certain costs of retirement programs; and certain legal judgments against the Service are paid from the Judgment Fund maintained by the Department of the Treasury. Within DOI itself, the Solicitor's Office provides legal services to other DOI bureaus at less than full cost. When costs identifiable to the Service and directly attributable to the Service's operations are paid by other agencies, the Service recognizes these amounts as operating expenses. In addition, the Service recognizes an imputed financing source on the Consolidated Statement of Changes in Net Position to indicate the funding of Service operations by other Federal agencies.

### **4. Deferred Revenue**

Unearned revenue is recorded as deferred revenue until earned.

## **K. Personnel Compensation and Benefits**

### **1. Annual, Sick, and Other Leave**

Annual leave is accrued as it is earned. The accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave, future funding sources will be used. Sick leave and other types of non-vested leave are expensed as taken. Accrued benefits are included in Intragovernmental Liabilities as accrued payroll and benefits.

### **2. Federal Employees Worker's Compensation Program**

FECA authorizes income and medical cost protection to covered Federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The U.S. Department of Labor administers the FECA program. Initially, the U.S. Department of Labor pays FECA benefit claims for DOI employees and subsequently DOI reimburses it. The U.S. Department of Labor is responsible for calculating FECA liability of future compensation benefits for all Federal agencies and then distributes the resulting liability to each benefiting agency.

The FECA liability consists of two components. The first component is based on actual claims paid by the U.S. Department of Labor, but not yet reimbursed by the Service. The second is the estimated liability for future benefit payments resulting from the outcome of past events. This liability includes death, disability, medical, and miscellaneous costs.

### **3. Federal Employees Group Life Insurance Program (FEGLI)**

The OPM administers the FEGLI program. The Service recognizes identified costs for partial funding of insurance costs paid for by OPM as Service expenses. The funding for insurance costs is reflected as imputed financing sources on the Statement of Changes in Net Position.

Most Service employees are entitled to participate in the FEGLI program. Participating employees can obtain various options of term life insurance. OPM administers this program and is responsible for reporting FEGLI liabilities on its financial statements.

### **4. Retirement Programs**

The OPM administers two major Federal retirement programs. The Service recognizes identified costs for partial funding of retirement benefits paid for by OPM as Service expenses. The funding for these retirement costs is reflected as imputed financing sources on the Statement of Changes in Net Position.

Service employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) defined benefit pension plans. FERS went into effect January 1, 1987.

FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 could elect either the combination of FERS and Social Security, or remain in CSRS.

FERS offers a savings plan to which the Service automatically contributes 1% of the employee's basic pay to the tax deferred Thrift Savings Plan (TSP) and matches employee contributions up to an additional 4% of basic pay. Effective with the pay period beginning December 11, 2005, and the end of the TSP open period for employee contributions, both FERS and CSRS employees' maximum contributions to their employee saving plans fell under the Internal Revenue Service limits of an annual maximum contribution of \$15,000. For the previous year, FERS employees could contribute up to 15% of their gross earnings. CSRS employees could contribute up to 10% of their gross earnings for the year ended September 2005. CSRS employees receive no matching contribution from the Service.

The Service is not responsible for, and does not report CSRS or FERS assets, accumulated plan benefits, or liabilities applicable to its employees. OPM, which administers the plans, is responsible for, and reports these amounts.

## **L. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## **M. Consolidated Statement of Financing**

The Statement of Financing is used to reconcile budgetary data with proprietary data. It articulates the relationship between net obligations derived from an entity's budgetary accounts and the net cost of operations derived from the entity's proprietary accounts by identifying and explaining key differences between two numbers.

In order to conform to the *“Implementation Guide to Statement of Financing in Statement of Federal Financial Accounting Standards 7, Accounting for Revenue and Other Financing Sources: Detailed Information on the Statement of Financing”*, the DOI changed the crosswalk for specific line items of the Statement of Financing.

“Resources that Finance the Acquisition of Assets” reflects only the purchase of capitalized assets. “Revaluation of Assets or Liabilities” captures the losses on disposition of capitalized assets. “Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operation” includes capitalized assets transferred in and out. The Service has restated the FY 2005 line amounts to reflect the above crosswalk changes.

The amount of change in unfunded liabilities crosswalks to “Components Requiring or Generating Resources in Future Periods: Other”. If the change in unfunded liabilities represents an increase as was the case in FY 2005 primarily due to storm damage, the amount of the increase remains on this line for financial reporting. On the other hand, decreases in unfunded liabilities are found on the line “Resources that Fund Expenses Recognized in Prior Periods.” Because of funding for storm damage, FY 2006 represents a decrease. The decrease is reflected on the appropriate line.

## Note 2 - Assets Analysis

The assets reported in the financial statements include unrestricted and restricted entity assets and restricted non-entity assets. With the implementation of SFFAS 27 and the FY 2006 transfer of Job Corps, the Service's current year asset analysis reflects no restricted non-entity assets. Prior to FY 2006, restricted non-entity assets were held by either the Service or ARTF with no authority for use by the Service, to be transferred to other agencies at a future date. FY 2005 included assets to be transferred to the Job Corps program and ARTF amounts scheduled for transfer to the U.S. Coast Guard and the U.S. Army Corps of Engineers. Restricted non-entity assets also included estimates of future transfers of current SFRBTF funds to these two agencies.

Unrestricted entity assets are currently available for use by the Service. Restricted entity assets are not currently available for use by the Service, pending authorization by Congress.

The following chart summarizes the Service's unrestricted entity, restricted entity, and restricted non-entity assets:

### Assets Analysis as of September 30, 2006 and 2005 (dollars in thousands)

	Entity Unrestricted	Entity Restricted	Non Entity Restricted	2006 TOTAL
<b>Intragovernmental Assets:</b>				
Fund Balance with Treasury	\$ 1,616,581	\$ 21,791	\$ -	\$ 1,638,372
Investments, Net	709,992	745,765	-	1,455,757
Accounts and Interest Receivable	23,179	12,489	-	35,668
Other				
Advances and Prepayments	697	-	-	697
<b>Total Intragovernmental Assets</b>	<b>2,350,449</b>	<b>780,045</b>	<b>-</b>	<b>3,130,494</b>
Cash	37	-	-	37
Accounts and Interest Receivable, Net	16,142	-	-	16,142
General Property, Plant and Equipment, Net	974,702	-	-	974,702
Other				
Advances and Prepayments	282	-	-	282
<b>Subtotal</b>	<b>282</b>	<b>-</b>	<b>-</b>	<b>282</b>
Stewardship Assets				
<b>TOTAL ASSETS</b>	<b>\$ 3,341,612</b>	<b>\$ 780,045</b>	<b>\$ -</b>	<b>\$ 4,121,657</b>
	Entity Unrestricted	Entity Restricted	Non Entity Restricted	2005 TOTAL
<b>Intragovernmental Assets:</b>				
Fund Balance with Treasury	\$ 1,449,288	\$ 7,978	\$ -	\$ 1,457,266
Investments, Net	753,238	682,777	563,097	1,999,112
Accounts and Interest Receivable	19,461	9,452	-	28,913
Other				
Advances and Prepayments	1,368	-	-	1,368
<b>Total Intragovernmental Assets</b>	<b>2,223,355</b>	<b>700,207</b>	<b>563,097</b>	<b>3,486,659</b>
Cash	51	-	-	51
Accounts and Interest Receivable, Net	22,003	-	-	22,003
General Property, Plant and Equipment, Net	917,489	-	-	917,489
Other				
Advances and Prepayments	210	-	-	210
<b>Subtotal</b>	<b>210</b>	<b>-</b>	<b>-</b>	<b>210</b>
Stewardship Assets				
<b>TOTAL ASSETS</b>	<b>\$ 3,163,108</b>	<b>\$ 700,207</b>	<b>\$ 563,097</b>	<b>\$ 4,426,412</b>

### Note 3 - Fund Balance with Treasury and Cash

The Service's Fund Balance with the Department of the Treasury is as follows:

Fund Balance with Treasury  
as of September 30, 2006 and 2005  
(dollars in thousands)

Fund Balance with Treasury by Fund Type		2006	2005
General Funds	\$	650,614	\$ 521,819
Special Funds		949,778	905,585
Trust Funds		35,594	27,810
Other Fund Types		2,386	2,052
<b>Total Fund Balance with Treasury by Fund Type</b>	<b>\$</b>	<b>1,638,372</b>	<b>\$ 1,457,266</b>
Status of Fund Balance with Treasury		2006	2005
Unobligated			
Available	\$	369,350	\$ 179,767
Unavailable		2,398	4,027
Obligated Not Yet Disbursed		1,110,870	1,137,171
<b>Subtotal</b>		<b>1,482,618</b>	<b>1,320,965</b>
Fund Balance with Treasury Not Covered by Budgetary Resources			
Unavailable Receipt Accounts		153,368	134,249
Deposit Funds, Clearing, and Suspense Accounts		2,386	2,052
<b>Subtotal</b>		<b>155,754</b>	<b>136,301</b>
<b>Total Status of Fund Balance with Treasury</b>	<b>\$</b>	<b>1,638,372</b>	<b>\$ 1,457,266</b>

Service imprest cash as of September 30, 2006 and September 30, 2005 is \$37,000 and \$51,000 respectively. Imprest cash is used for overdrawn grants discovered through audit findings on behalf of the grantees. Subsequently, the cash must be repaid. Fewer audit findings have resulted in a lower current year ending cash balance as compared to that of the prior year.

Service Cash  
as of September 30, 2006 and 2005  
(dollars in thousands)

	2006	2005
Imprest Cash	\$ 37	\$ 51
<b>Total Service Cash</b>	<b>\$ 37</b>	<b>\$ 51</b>

## Note 4 - Investments, Net

The Federal government does not set aside assets to pay future benefits or other expenses associated with earmarked funds. The cash generated from earmarked funds is used by the U.S. Treasury for general government purposes. Treasury securities are issued to the Service as evidence of earmarked receipts. These securities are an asset to the earmarked fund and are presented as Investments in the following tables. Treasury securities are a liability of the U.S. Treasury and are eliminated in the consolidation of the U.S. Government-wide financial statements. Treasury will finance any future redemption of the securities by an earmarked fund in the same manner that all other government expenditures are financed.

Treasury securities provide the Service with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Service requires redemption of these securities to make expenditures, the government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same manner in which the government finances all other expenditures.

Investments in non-marketable market-based Treasury securities consist of various bills purchased through the Federal Investment Branch of the Bureau of Public Debt. The invested funds consist of excise tax receipts from the Federal Aid in Wildlife Restoration Fund (Treasury Symbol 14X5029), and the Service's component of the SFRBTF (Treasury Symbol 20X8147). With the implementation of SFFAS 27, the Service no longer reports the portions of investments that belong to other agencies but held in the SFRBTF. As such, in FY 2006 there are no non-entity investments reported by the Service.

The Service's outstanding investments in Treasury securities are as follows:

### Investments, Net as of September 30, 2006 and 2005 (dollars in thousands)

		Investment Type	Cost	Net Amortized (Premium)/ Discount	Investments, Net	Market Value 2006
U.S. Treasury Securities						
14X5029		Non-Marketable, market-based	\$ 493,190	\$ 2,163	\$ 495,353	\$ 490,325
	SFRBTF 20X8147 (the Service's component)	Non-Marketable, market-based	952,738	1,804	954,542	950,635
Total U.S. Treasury Securities			1,445,928	3,967	1,449,895	1,440,960
Accrued Interest			5,862	-	5,862	-
Total Investments			\$ 1,451,790	\$ 3,967	\$ 1,455,757	\$ 1,440,960

		Investment Type	Cost	Net Amortized (Premium)/ Discount	Investments, Net	Market Value 2005
U.S. Treasury Securities						
14X5029	Entity	Non-Marketable, market-based	\$ 450,309	\$ 1,337	\$ 451,646	\$ 446,705
	ARTF 20X8147	Non-Entity Non-Marketable, market-based	1,543,740	983	1,544,723	1,473,847
Total U.S. Treasury Securities			1,994,049	2,320	1,996,369	1,920,552
Accrued Interest			2,743	-	2,743	-
Total Investments			\$ 1,996,792	\$ 2,320	\$ 1,999,112	\$ 1,920,552

## Note 5 - Accounts and Interest Receivable, Net

Accounts and interest receivable consist of amounts owed the Service by other Federal agencies and the public and are recognized primarily when the Service performs reimbursable services or sells goods. Interest receivable consists of monies earned but not yet received and primarily derives from investments disclosed in Note 4, *Investments, Net*.

FY 2006 reflects the implementation of SFFAS 27 amending the requirement for the entity with the preponderance of benefit to report SFRBTF on behalf of all three components. The financial statements for the U.S. Army Corps of Engineers and the U.S. Coast Guard should reflect their components of the SFRBTF in the Consolidated Financial Statements for the U.S. Army and Homeland Security, respectively. For FY 2005 accounts receivables also includes those funds to be deposited in the ARTF.

Net accounts and interest receivable consist of the following:

### Accounts and Interest Receivable, Net as of September 30, 2006 and 2005 (dollars in thousands)

Accounts and Interest Receivable from Federal Agencies		2006	2005
Billed	\$	25,528	\$ 23,468
Unbilled		10,140	5,445
<b>Total Accounts and Interest Receivable - Federal</b>	<b>\$</b>	<b>35,668</b>	<b>\$ 28,913</b>

Accounts and Interest Receivable from the Public		2006	2005
Current	\$	16,018	\$ 22,009
1 - 180 Days Past Due		165	42
181 - 365 Days Past Due		34	23
1 to 2 Years Past Due		20	57
Over 2 Years Past Due		-	-
Total Billed Accounts and Interest Receivable - Public		16,237	22,131
Unbilled Accounts and Interest Receivable		54	-
Total Accounts and Interest Receivable - Public		16,291	22,131
Allowance for Doubtful Accounts - Public		(149)	(128)
<b>Total Accounts and Interest Receivable - Public Net of Allowance</b>	<b>\$</b>	<b>16,142</b>	<b>\$ 22,003</b>

## Note 6 - General Property, Plant, and Equipment (PP&E), Net

Construction in Progress in Abeyance denotes construction in progress that has been halted due to lack of funding, or other reasons, and continues to be maintained.

Construction in Progress in Abeyance for the Service represents engineering design costs for one project for FY 2006, a visitor center, while FY 2005 reflects costs for two projects, a visitor center and a dam waiting for construction funding.

Net General PP&E owned by the Service consists of the following:

### General Property, Plant and Equipment (PP&E), Net as of September 30, 2006 and 2005 (dollars in thousands)

	Acquisition Cost	Accumulated Depreciation	Net Book Value 2006
Land and Land Improvements	\$ 14,361	\$ -	\$ 14,361
Buildings	648,979	179,165	469,814
Structures and Facilities	527,221	251,750	275,471
Leasehold Improvements	2,585	726	1,859
Construction in Progress			
Construction in Progress - General	69,497	-	69,497
Construction in Progress in Abeyance	827	-	827
Equipment, Vehicles, and Aircraft	329,445	187,250	142,195
Internal Use Software:			
In Use	1,454	776	678
<b>Total Property, Plant, and Equipment</b>	<b>\$ 1,594,369</b>	<b>\$ 619,667</b>	<b>\$ 974,702</b>

	Acquisition Cost	Accumulated Depreciation	Net Book Value 2005
Land and Land Improvements	\$ 11,313	\$ -	\$ 11,313
Buildings	609,254	162,406	446,848
Structures and Facilities	509,235	231,473	277,762
Leasehold Improvements	2,585	467	2,118
Construction in Progress			
Construction in Progress - General	46,155	-	46,155
Construction in Progress in Abeyance	1,186	-	1,186
Equipment, Vehicles, and Aircraft	309,706	178,568	131,138
Internal Use Software:			
In Use	1,454	485	969
<b>Total Property, Plant, and Equipment</b>	<b>\$ 1,490,888</b>	<b>\$ 573,399</b>	<b>\$ 917,489</b>

## Note 7 - Seized and Forfeited Property

Seized and forfeited property is recorded in case files maintained in the Service's Law Enforcement Management Information System (LEMIS 2000). The Service does not assign a financial value to, or recognize for purposes of its financial statements, property seized by or forfeited to the Service that cannot be sold due to legal restrictions. Such property is typically wildlife or wildlife parts that can be donated to schools, aquaria, museums, or zoos for educational or scientific purposes or destroyed. Seized or forfeited property that can be sold legally is valued by individual agents based on their best professional estimate, through declarations, or through evaluating fair market value.

Values of property seized by or forfeited to the Service reported below are not reported in the financial statements as the property held by the Service cannot be legally sold.

Seized and forfeited property cases and estimated values, including additions and dispositions, are as follows:

### Seized and Forfeited Property for the periods ended September 30, 2006 and 2005 (dollars in thousands)

	Balance 10/1/05		Additions		Dispositions		Balance 9/30/06	
	Market		Market		Market		Market	
	# Cases	Value	# Cases	Value	# Cases	Value	# Cases	Value
<b>Seized Property</b>								
Wildlife	1,082	\$ 3,148	3,501	\$ 3,372	3,491	\$ 4,756	1,092	\$ 1,764
Non-Wildlife	188	47	223	334	223	155	188	226
<b>Forfeited Property</b>								
Wildlife	1,068	3,136	2,167	3,855	2,162	5,248	1,073	1,743
Non-Wildlife	187	47	105	229	106	50	186	226

	Balance 10/1/04		Additions		Dispositions		Balance 9/30/05	
	Market		Market		Market		Market	
	# Cases	Value	# Cases	Value	# Cases	Value	# Cases	Value
<b>Seized Property</b>								
Wildlife	1,114	\$ 2,906	2,636	\$ 1,846	2,668	\$ 1,604	1,082	\$ 3,148
Non-Wildlife	211	303	210	77	233	333	188	47
<b>Forfeited Property</b>								
Wildlife	1,103	2,899	1,772	1,317	1,807	1,080	1,068	3,136
Non-Wildlife	208	303	116	19	137	275	187	47

## **Note 8 - Liabilities Analysis**

Liabilities are claims against the Service by other Federal and non-Federal entities for measurable past transactions or events. Certain types of liabilities are not covered by budgetary resources and require Congressional action before budgetary resources can be provided. With the FY 2006 implementation of SFFAS 27, the liabilities analysis does not reflect a payable for the SFRBTF.

Service liabilities are detailed on the following page:

**Liabilities Analysis**  
**as of September 30, 2006 and 2005**  
(dollars in thousands)

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		2006
	Current	Non-Current	Current	Non-Current	
<b>Intragovernmental Liabilities:</b>					
Accounts Payable	\$ 5,236	\$ -	\$ -	\$ -	\$ 5,236
Other					
Advances and Deferred Revenue	-	-	1,094	-	1,094
Other Liabilities					
Accrued Employee Benefits	5,451	-	5,308	10,985	21,744
Total Other Liabilities	5,451	-	5,308	10,985	21,744
Total Other Intragovernmental Liabilities	5,451	-	6,402	10,985	22,838
<b>Total Intragovernmental Liabilities</b>	<b>10,687</b>	<b>-</b>	<b>6,402</b>	<b>10,985</b>	<b>28,074</b>
<b>Public Liabilities:</b>					
Accounts Payable	78,348	-	-	-	78,348
FECA Actuarial Liability	-	-	-	62,810	62,810
Environmental and Disposal Liabilities	-	-	-	22,113	22,113
Other					
Contingent Liabilities	-	-	-	242	242
Advances and Deferred Revenue	9,554	-	-	-	9,554
Other Liabilities					
Accrued Payroll and Benefits	22,099	-	-	-	22,099
Unfunded Annual Leave	-	-	-	49,657	49,657
Deposit Funds	-	-	-	1,293	1,293
Storm Damage	56,018	101,495	-	-	157,513
Other Miscellaneous Liabilities	-	-	18	-	18
Total Other Liabilities	78,117	101,495	18	50,950	230,580
Total Other Public Liabilities	87,671	101,495	18	51,192	240,376
Total Public Liabilities	166,019	101,495	18	136,115	403,647
<b>Total Liabilities</b>	<b>\$ 176,706</b>	<b>\$ 101,495</b>	<b>\$ 6,420</b>	<b>\$ 147,100</b>	<b>\$ 431,721</b>

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		2005
	Current	Non-Current	Current	Non-Current	
<b>Intragovernmental Liabilities:</b>					
Accounts Payable	\$ 6,991	\$ -	\$ -	\$ -	\$ 6,991
Aquatic Resources Trust Fund Amounts due to others	-	-	-	439,930	439,930
Other					
Advances and Deferred Revenue	-	-	976	-	976
Other Liabilities					
Accrued Employee Benefits	5,318	-	4,889	10,901	21,108
Other Miscellaneous Liabilities	-	-	-	1,926	1,926
Total Other Liabilities	5,318	-	4,889	12,827	23,034
Total Other Intragovernmental Liabilities	5,318	-	5,865	12,827	24,010
<b>Total Intragovernmental Liabilities</b>	<b>12,309</b>	<b>-</b>	<b>5,865</b>	<b>452,757</b>	<b>470,931</b>
<b>Public Liabilities:</b>					
Accounts Payable	59,301	-	-	-	59,301
FECA Actuarial Liability	-	-	-	62,270	62,270
Environmental and Disposal Liabilities	-	-	-	14,033	14,033
Other					
Contingent Liabilities	-	-	-	100	100
Advances and Deferred Revenue	7,485	-	-	-	7,485
Other Liabilities					
Accrued Payroll and Benefits	23,832	-	-	-	23,832
Unfunded Annual Leave	-	-	-	49,044	49,044
Deposit Funds	-	-	-	1,076	1,076
Storm Damage	4,646	-	26,207	47,481	78,334
Other Miscellaneous Liabilities	-	-	30	-	30
Total Other Liabilities	28,478	-	26,237	97,601	152,316
Total Other Public Liabilities	35,963	-	26,237	97,701	159,901
Total Public Liabilities	95,264	-	26,237	174,004	295,505
<b>Total Liabilities</b>	<b>\$ 107,573</b>	<b>\$ -</b>	<b>\$ 32,102</b>	<b>\$ 626,761</b>	<b>\$ 766,436</b>

## **Environmental and Disposal Liabilities**

The Service operates its environmental cleanup program in accordance with the requirements of the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation, and Liability Act and cleanup regulations established by the Environmental Protection Agency. Environmental and disposal liabilities for the Service are associated with the costs of remediating hazardous waste and landfills existing within units of the NWRS and the NFHS and for which the government is legally liable. In accordance with GAAP, the Service has recorded in its financial statements a liability for remediating contamination on Service land of approximately \$22 million and \$14 million as of September 30, 2006 and September 30, 2005, respectively. The Service believes that a reasonable estimate of potential liabilities for remediation efforts ranges between \$27 million and \$120 million as of September 30, 2006. The estimated range of potential liabilities as of September 30, 2005 was between \$22 million and \$120 million.

The cost range represents the total estimated cost that may be borne by the Service for cleanup on Service lands, based on information available to the Service at this time. Liability estimates are based on accounting definitions of liability, as distinct from legal liability. As such, these estimates may not be construed as an indication that the Service would admit or would be determined to be legally liable for any or all of such costs. These cases include sites on lands obtained by the Service through donation, acquisition or transfer from other Federal agencies. Cost estimates are based on site investigations and the expected degree and type of contamination probable and reasonably possible at these sites. Where possible, cost estimates are included for conducting site investigations and for conducting monitoring actions needed to assess the efficacy of cleanup. The Service's methods for estimating these liabilities include quotes from private firms or government agencies that have worked on the sites, projected planning figures based on related projects, and best engineering judgment. Changes in cleanup cost estimates are developed in accordance with departmental policy, which addresses systematic processes for cost estimating and places added emphasis on development and retention of supporting documentation. Changes in cleanup cost estimates are based on progress made in, and revision of, the cleanup plans, assuming current technology, laws, and regulations. Cost estimates for the sites identified before FY 2006 also include an increase due to inflation. The Service used an inflation factor of 3.03% for FY 2006. No material changes in total estimated cleanup costs are due to changes in law and technology.

## **Contingent Liabilities**

Several claims are pending administrative action against the Service for which payments are deemed probable. In accordance with GAAP, the Service has recorded contingent liabilities of \$242,000 as of September 30, 2006 and \$100,000 as of September 30, 2005. The Service estimates a range of potential liabilities for other claims where the likelihood of an unfavorable outcome is reasonably possible, which is between zero and \$300,000 as of September 30, 2006 and between \$161,000 and \$1.7 million as of September 30, 2005. The following tables present the accrued and estimated range of loss for potential liabilities related to estimated cleanup costs and contingent liabilities.

Contingent Liabilities and Environmental and Disposal Liabilities  
as of September 30, 2006 and 2005  
(dollars in thousands)

		Accrued	Estimated Range of Loss	
			Lower End	Upper End
	2006	Liabilities	of Range	of Range
Contingent Liabilities				
Probable		\$ 242	\$ 242	\$ 13,342
Reasonably Possible			-	300
Environmental and Disposal Liability				
Probable		22,113	22,113	111,305
Reasonably Possible			4,603	8,603
		Accrued	Estimated Range of Loss	
			Lower End	Upper End
	2005	Liabilities	of Range	of Range
Contingent Liabilities				
Probable		\$ 100	\$ 100	\$ 100

**Liabilities Involving  
Government-Related Events**

During September of 2005, hurricanes and other storms caused significant damage to numerous units of NWRS, NFHS, and other facilities. In 2005, coastal Alabama, Mississippi, and Texas as well as coastal and southwestern Louisiana sustained significant damage in the wake of Hurricanes Katrina and Rita. Most costs encompass removal of debris, repairs to permanent land improvements, and other stewardship assets, as well as repairs for non-capitalized or fully depreciated assets.

As a result of the FY 2005 storm damage inflicted primarily by Katrina, certain capitalized assets were completely destroyed or affected to such an extent as to necessitate adjustment to recorded values. Accounting for destroyed or impaired assets reduced the Service's net property, plant, and equipment by \$9 million for 2005.

**Change in Unfunded  
Liabilities**

The Consolidated Statement of Financing includes a section depicting the change in certain unfunded liabilities. The amounts in this section do not necessarily correlate to the change in liabilities not covered by budgetary resources as shown in the liabilities analysis footnote. Differences are primarily the result of certain Treasury requirements related to changes in various liabilities which are reported on the Consolidating Statement of Financing. These requirements are dependent upon whether the change in liabilities results in an increase or decrease to the liability account. Additionally, some liability accounts not covered by budgetary resources are not included in the Consolidated Statement of Financing.

The total FY 2006 Non-Federal Other Liabilities reflects both funded and unfunded amounts for storm damage resulting from Hurricane Katrina, as well as storm damages from various tropical storms the previous hurricane season, occurring late summer, 2004. The total FY 2006 Non-Federal Other Liabilities in the amount of \$157 million primarily represents funded liabilities to storm damage arising from Hurricanes Rita and Katrina.

There are no unfunded liabilities relating to storm damage for FY 2006. Non-Federal Other Liabilities on the Consolidated Balance Sheet reflects funded amounts for storm damage resulting from Hurricane Katrina, as well as storm damages from various tropical storms the previous hurricane season, occurring late summer, 2004. The total FY 2005 Non-Federal Other Liabilities in the amount of \$78 million primarily addresses Katrina unfunded for \$74 million.

The total FY 2006 Non-Federal Other Liabilities reflects the funded amount \$157 million for storm damage resulting from Hurricane Katrina while FY 2005 reflected \$5 million funding to address Hurricane Wilma and other storms which occurred the prior storm season.

## Note 9 - Operating Leases

Most of the Service's leased facilities are rented from the General Services Administration (GSA), which charges rent that is intended to approximate commercial rental rates. The Service includes the estimated rental payments to GSA in the following table. For Federally owned facilities, the Service either does not execute an agreement with GSA, or enters into cancelable agreements, some of which do not have a formal lease expiration date. The Service can vacate these properties after giving 120 to 180 days notice of intent to vacate; however, the Service normally occupies these properties for an extended time period with little variation from year to year. For non-Federally owned property, an occupancy agreement is generally executed according to standard contract principles. In compliance with departmental guidance, estimates for real and personal property leases are based on an annual inflation factor of 2.4% for FY 2007 and thereafter.

The estimates for personal property represent the cost of leasing GSA vehicles. The terms for GSA leases frequently exceed one year, although a definite lease period is usually not specified. For purposes of disclosing future operating payments, GSA personal property leases are included from 2007 through 2011. The current lease costs are based on the vehicles leased by the Service from GSA as of September 2006.

The aggregate estimates for the Service's: (1) future payments due under non-Federal or non-cancelable operating leases; and (2) estimated real property rent payments to GSA and other Federal entities are as follows:

### Future Operating Lease Payments (dollars in thousands)

Fiscal Year	Real Property		Personal Property		Total
	Federal	Public	Federal	Public	
2007	\$ 47,218	\$ 843	\$ 2,499	\$ 51	\$ 50,611
2008	44,330	436	2,558	-	47,324
2009	40,086	157	2,620	-	42,863
2010	39,569	54	2,682	-	42,305
2011	37,506	40	2,747	-	40,293
Thereafter	61,453	599	-	-	62,052
<b>Total Future Operating Lease Payments</b>	<b>\$ 270,162</b>	<b>\$ 2,129</b>	<b>\$ 13,106</b>	<b>\$ 51</b>	<b>\$ 285,448</b>

## Note 10 - Imputed Financing Sources

Imputed financing sources primarily represent costs that have been funded and incurred by another entity on behalf of the Service but budgeted by another entity. The Statement of Changes in Net Position reflects a total imputed financing from costs absorbed by others in the amount of \$62 million for both years. This total represents several components, one inter-entity with the DOI Office of the Solicitor and two intra-entities with the OPM and the Department of the Treasury.

The imputed cost reflects the recorded costs (e.g., employee benefit costs) that were financed by budgetary resources of the OPM. For the year ended September 30, 2006, imputed financing sources from OPM totaled approximately \$53 million with the year ended September 30, 2005 reflecting \$52 million. The Service recognizes the actuarial present value of pensions and other retirement benefits for its employees during their active years of service.

In accordance with SFFAS 30, *Inter-Entity Cost Implementation*, the Service has begun to incorporate the full cost of services received from other entities within DOI. The departmental threshold for the recognition of inter-entity imputed cost is \$300,000. Accordingly, the Service has recognized imputed costs associated with services received from the Solicitor's Office of approximately \$6 million for 2006 and \$10 million for 2005.

Additionally, the Service recognized approximately \$3 million in FY 2006 associated with services received from Alcohol and Tobacco Tax and Trade Bureau for its administration of the Firearms and Ammunition Excise program. The amounts for these services were not received in FY 2005.

Imputed costs also include services received by the Service at less than full cost.

## Note 11 - Earmarked Funds

Earmarked funds are specifically identified revenues and other financing sources required by statute to be used for designated activities, benefits or purposes that must be accounted for separately from the Government's general revenues.

**The Sport Fish Restoration and Boating Trust Fund.** The Service's component of the SFRBTF (previously referred to as ARTF) receives funding from excise tax receipts collected from manufacturers of equipment used in fishing, hunting, and sport shooting, and on motorboat fuels. SFRBTF provides funding to three components: the Service's SFRA, the U.S. Coast Guard's Boat Safety Program and the U.S. Army Corps of Engineers' Coastal Wetlands Program. SFRBTF encompasses the programs of these three components. In accordance with SFFAS 27, the Service's financials relating to SFRBTF only reflect the activity of its portion of SFRBTF.

**The Federal Aid in Wildlife Restoration Fund** (the Pittman-Robertson Wildlife Restoration Act). Federal Aid in Wildlife Restoration received funding from excise taxes on sporting firearms, handguns, ammunition, and archery equipment. It provides Federal assistance to the 50 States, Puerto Rico, Guam, and the U.S. Virgin Islands, the Northern Mariana Islands, and American Samoa for projects to restore, enhance, and manage wildlife resources, and to conduct State hunter education programs. The Act authorizes receipts for permanent indefinite appropriations to the Service for use in the fiscal year following collection. Funds not used by the States after two years revert to the Service for carrying out the provisions of the Migratory Bird Conservation Act.

**The Cooperative Endangered Species Fund** received \$62 million from LWCF, \$20 million from Cooperative Endangered Species, Unavailable Receipt Account. Law allows replenishment of the Unavailable Receipt Count by requesting warrant from Treasury General Fund. Five percent of Sport Fish receipts represent the amount of the warrant. It provides grant funding to States and territories for species and habitat conservation actions on non-federal lands, including habitat acquisition, conservation planning, habitat restoration, status surveys, captive propagation, and reintroduction, research and education.

**The State and Tribal Wildlife Grants Fund** received funding from Congressional appropriation. By virtue of its appropriation being derived from LWCF, the State and Tribal Wildlife Grant program is identified as an earmarked fund. The State Wildlife Grant Program has the long-term goal to stabilize, restore, enhance and protect species and their habitat that are of concern. The grant program provides Federal funds for distribution to States, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, the Northern Mariana Islands, American Samoa, and federally recognized Indian tribes. The grant program provides funds for: 1) planning and development of State, Tribal, and territorial programs that address species in greatest conservation need, and 2) the implementation of programs that benefit wildlife and their habitat. Funds derived from the LWCF remain available until expended.

**The Sport Fish Restoration Account** is authorized to use received excise tax revenue to provide assistance to the 50 States, Puerto Rico, Guam, the U.S. Virgin Islands, the Northern Mariana Islands, American Samoa, and the District of Columbia to carry out projects to restore, enhance, and manage sport fishery resources. Receipts collected into this account are permanently appropriated for use in the fiscal year following collection. Excise tax revenue distributed to the Service on behalf of the Coast Guard and U.S. Army Corps of Engineers are immediately transferred out to those entities.

*The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users* (P.L. 109-059) provided four significant changes for the Service, effective October 1, 2005. The Act eliminated the Aquatic Resources Trust Fund and the Sport Fish Restoration Account and established a new Sport Fish Restoration and Boating Trust Fund. It authorized the spend-down of balances of approximately \$94 million from the old Boat Safety account in fiscal years 2006 through 2010. Additionally, legislation amended Section 16 USC 777c of the Dingell-Johnson Sport Fish Restoration Act and changed the distribution of Sport Fish receipts from, primarily, amounts specified in law to a percentage-based distribution. The new law provided 18.5% of the funds collected in the Sport Fish Restoration and Boating Trust Fund, after distributions of administrative expenses and for other purposes, through FY 2009.

Finally, although the Service will not see a significant increase in excise tax revenue until FY 2007, legislation also redirected 4.8 cents per gallon of certain fuels from the General Fund of the Treasury to the Sport Fish Restoration and Boating Trust Fund.

The distribution of funds relating to these accounts represents an inflow of revenue as a result of Intragovernmental transfers. The presentation for FY 2006 Earmarked Funds follows the format of OMB Circular A-136, incorporating SFFAS 27 which amends SFFAC Number 2, footnote 3. Accordingly, the Service has reported only its portion of the SFRBTF, the SFRA. The financial statements for the U.S. Army Corps of Engineers and the U.S. Coast Guard should reflect their portions of the SFRBTF in the Consolidated Financial Statements for the U.S. Army and Homeland Security, respectively.

The following table presents detailed data for the Service's Earmarked Funds.

**Earmarked Funds  
as of September 30, 2006  
(dollars in thousands)**

	Federal Aid Wildlife Restoration Fund	Cooperative Endangered Species Fund	State and Tribal Wildlife Grants Fund	Sport Fish Restoration and Boating Trust Fund (the Service's Component)	Sport Fish Restoration Fund	Other Earmarked Funds	FY 2006
<b>ASSETS</b>							
Fund Balance with Treasury	\$ 46,405	\$ 246,938	\$ 186,867	\$ 21,792	\$ 8,026	\$ 475,915	\$ 985,943
Investments, Net	501,215	-	-	954,542	-	-	1,455,757
Accounts Receivable, Net	-	-	-	12,489	512,910	2,984	528,383
General Property, Plant, and Equipment, Net	-	-	-	-	-	171	171
Other Assets	37	-	-	-	-	-	37
<b>TOTAL ASSETS</b>	<b>\$ 547,657</b>	<b>\$ 246,938</b>	<b>\$ 186,867</b>	<b>\$ 988,823</b>	<b>\$ 520,936</b>	<b>\$ 479,070</b>	<b>\$ 2,970,291</b>
<b>LIABILITIES</b>							
Accounts Payable	14,885	1,346	3,902	512,912	21,377	3,839	558,261
Other Liabilities	971	416	285	-	1,167	5,164	8,003
<b>TOTAL LIABILITIES</b>	<b>15,856</b>	<b>1,762</b>	<b>4,187</b>	<b>512,912</b>	<b>22,544</b>	<b>9,003</b>	<b>566,264</b>
<b>NET POSITION</b>							
Unexpended Appropriations	-	-	-	-	-	80,977	80,977
Cumulative Results of Operations	531,801	245,176	182,680	475,911	498,392	389,090	2,323,050
<b>TOTAL NET POSITION</b>	<b>531,801</b>	<b>245,176</b>	<b>182,680</b>	<b>475,911</b>	<b>498,392</b>	<b>470,067</b>	<b>2,404,027</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 547,657</b>	<b>\$ 246,938</b>	<b>\$ 186,867</b>	<b>\$ 988,823</b>	<b>\$ 520,936</b>	<b>\$ 479,070</b>	<b>\$ 2,970,291</b>
<b>COST/REVENUE</b>							
Gross Costs	267,217	65,714	76,096	-	377,339	130,390	916,756
Earned Revenue	-	-	-	-	-	(44,473)	(44,473)
<b>NET COST OF OPERATIONS</b>	<b>267,217</b>	<b>65,714</b>	<b>76,096</b>	<b>-</b>	<b>377,339</b>	<b>85,917</b>	<b>872,283</b>
<b>NET POSITION</b>							
Net Position, Beginning Balance	\$ 498,419	\$ 232,178	\$ 191,176	\$ 606,431	\$ 511,346	\$ 438,601	\$ 2,478,151
Changes in Accounting Principles	-	-	-	(192,763)	-	(14,578)	(207,341)
Net Position, Beginning Balance as adjusted	\$ 498,419	\$ 232,178	\$ 191,176	\$ 413,668	\$ 511,346	\$ 424,023	\$ 2,270,810
Appropriations Received/Transferred	-	39,302	-	-	-	34,977	74,279
Royalties Retained	-	-	-	-	-	1,608	1,608
Non-Exchange Revenue	297,928	-	-	426,216	-	20,188	744,332
Other Financing sources							
Transfers In/(Out) without Reimbursement	(347)	39,302	67,492	(363,973)	363,983	73,636	180,093
Imputed Financing from Costs Absorbed by Others	3,018	108	108	-	402	1,552	5,188
Net Cost of Operations	(267,217)	(65,714)	(76,096)	-	(377,339)	(85,917)	(872,283)
Change in Net Position	33,382	12,998	(8,496)	62,243	(12,954)	46,044	133,217
<b>NET POSITION, ENDING BALANCE</b>	<b>\$ 531,801</b>	<b>\$ 245,176</b>	<b>\$ 182,680</b>	<b>\$ 475,911</b>	<b>\$ 498,392</b>	<b>\$ 470,067</b>	<b>\$ 2,404,027</b>

## Note 12 - Combined Statement of Budgetary Resources

The SBR provides information about how budgetary resources were made available as well as their status at the end of the accounting period. It is the only financial statement exclusively derived from the entity's budgetary general ledger in accordance with budgetary accounting rules incorporated into GAAP for Federal government. Effective FY 2006, OMB provided a new format for its SF-133, *Report on Budget Execution and Budgetary Resources*. Because the format of the SBR is based on that of the SF 133, the department revised the DOI presentation. In accordance with OMB Circular A-136, the comparative includes FY 2005 data prepared in the FY 2006 format.

All apportionments for the Service fall into OMB Category B, which apportions amounts by activity, project, or object. Apportionment Categories of Obligations Incurred include:

- Direct and Reimbursable Obligations Incurred
- Amounts Apportioned and Exempt from Apportionment
- Obligations by Apportionment Category

Each of the above categories is presented in the following table:

Obligations by Apportionment Category  
as of September 30, 2006 and 2005  
(dollars in thousands)

2006	Apportioned Category B	Exempt from Apportionment	2006 Total
Obligations Incurred:			
Direct	\$ 2,274,042	\$ -	\$ 2,274,042
Reimbursable	128,754	-	128,754
<b>Total Obligations Incurred</b>	<b>\$ 2,402,796</b>	<b>\$ -</b>	<b>\$ 2,402,796</b>
2005	Apportioned Category B	Exempt from Apportionment	2005 Total
Obligations Incurred:			
Direct	\$ 2,105,297	\$ -	\$ 2,105,297
Reimbursable	162,747	-	162,747
<b>Total Obligations Incurred</b>	<b>\$ 2,268,044</b>	<b>\$ -</b>	<b>\$ 2,268,044</b>

### A. Permanent Indefinite Appropriations

As of September 30, 2006, the Service had 12 permanent indefinite appropriations, which are primarily utilized to administer endangered species and wildlife and sport fish restorations grants to States and other non-Federal entities, and to fund land acquisition for the NWRs. These funds do not require annual appropriation action by Congress as they are subject to the authorities of permanent law and are available indefinitely. FY 2006 total budgetary resources for the 12 permanent indefinite funds were approximately \$963 million which consisted of approximately \$716 million in obligations incurred and an available balance of approximately \$246.8 million. Comparatively, at the end of FY 2005 total budgetary resources were approximately \$1,004.7 million, which consisted of approximately \$769.4 million in obligations incurred and an available balance of approximately \$235.3 million.

## **B. Legal Arrangements Affecting Use of Unobligated Balances**

The Service's FY 2006 operating and grant programs were financed and its financial activity summarized under 9 general fund accounts, 17 special fund accounts, and 2 trust fund accounts, all with distinct Treasury Fund Symbols. Of the 28 fund accounts, 6 represent allocation transfer accounts for which the Service would be considered as a child. (See Note 13, *Consolidated Statement of Financing*.)

All of the Service's funding needs are authorized in a number of appropriation laws, which prescribe a combination of current and permanent authority. Each of the Service's funds was appropriated under OMB apportionment Category B and was subject to annual apportionment. Current authority includes funding that is legislatively reauthorized each fiscal year, while permanent authority is issued once and remains in effect in future fiscal years until reauthorized or rescinded.

The majority of the Service's 28 fund accounts are classified as no-year, which allows the Service to use its fiscal year-end unobligated resources remaining in these accounts to execute its operating and grant programs in subsequent fiscal years.

The Service's operating account is classified as a multiyear appropriation, whose budget authority is available for two years. The FY 2005/2006 Resource Management appropriation will expire at the end of FY 2006. Expired, not cancelled funds, are resources that are available for the next 5 fiscal years to settle obligations arising in the year the funds were enacted, but are not available for new business. These expired resources are reported as "Permanently Not Available."

## **C. Undelivered Orders**

Beginning with the FY 2006 change in the format of the SBR, the amount of undelivered orders at the end of the period will no longer be reported on the face of the SBR. Consequently, this note disclosure is required in order to comply with SFFAS Number 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, paragraph 79 (a).

FY 2006 Undelivered orders totaled approximately \$1.2 million while FY 2005 totaled approximately \$1.3 million, excluding prepaid or advanced undelivered orders. For FY 2006, prepaid or advanced orders totaled approximately \$0.6 million while FY 2005 totaled approximately \$1.6 million.

## **D. Differences Between Amounts Reported in the Statement of Budgetary Resources and Amounts Reported in the Budget of the U.S. Government**

The SBR has been prepared to coincide with the amounts shown in the FY 2008 President's Budget (Budget of the U.S. Government). The President's Budget including the actual amounts for FY 2006 are expected for release in February 2007. Note the President's Budget on the OMB Web site: <http://www.whitehouse.gov/omb>

Budgetary resources and the status of those resources presented in the Combined SBR for the period ended September 30, 2005 differ from the amounts presented as 2005 actuals in the President's FY 2007 Budget. A portion of the differences is due to expired accounts being included in the SBR, but not in the President's Budget.

Treasury Financial Manual Bulletin 2006-05 informs agencies of a change in the budgetary presentation affecting the redistribution of receipt data in clearing accounts and certain miscellaneous receipt accounts from the Department of the Treasury to respective departments. This change in reporting represented an immaterial amount for the Service of approximately \$218,000. For FY 2006, offsetting receipts totaled \$76 million; the total presented for FY 2005 was \$35 million. The \$32 million collection for Cooperative Endangered Species Conservation Fund in FY 2005 was not recorded as an offsetting receipt. Consequently, for FY 2005, the SBR reflected offsetting receipts which were understated by \$32 million.

The comparison between the SBR and the President's Budget does not highlight the difference in Offsetting Receipts because the President's Budget Program and Financing lines do not reflect this SBR data. The source of the data designated as Total President's Budget in the table below is from the FY 2005 actual amounts as published in the Appendix to the Budget of the U.S. Government, FY 2007.

Differences are presented in the following table:

Comparison of President's Budget to the  
Statement of Budgetary Resources  
for the year ended September 30, 2005  
(dollars in millions)

SBR Line Description	Total President's Budget	Total SBR	Total Difference	Explanation Code *
Budgetary Resources:				
Unobligated Balance:				
Beginning of Fiscal Year	\$ 658	\$ 664	\$ (6)	A
Spending Authority From Offsetting Collections:	166	164	2	B
Nonexpenditure Transfers, net	(123)	(122)	(1)	E
Temporarily Not Available Pursuant to Public Law	(4)	(3)	(1)	C
Permanently Not Available	(16)	(16)	0	
Total Budgetary Resources	2,930	2,937	(7)	
Status of Budgetary Resources:				
Unobligated Balance - Available/Not Available	664	669	(5)	A
Total Status of Budgetary Resources	2,930	2,937	(7)	
Change in Obligated Balance:				
Obligated Balance, Net, Beginning of Fiscal Year	1,216	1,219	(3)	E
Obligated Balance, Net, End of Fiscal Year	(1,285)	(1,286)	1	E
Net Outlays:				
Less: Offsetting Collections	(155)	(163)	8	D

\* Explanation Codes:

- A. The President's Budget eliminates the unobligated balances expired and presents only balances available for new obligations.
- B. The President's Budget eliminates the expired spending authority from offsetting collections and presents only balances available for new obligations.
- C. In addition to the ATB reductions (temporarily not available), the President's Budget includes the amounts expired or withdrawn in this line.
- D. The President's Budget eliminates the expired collections (cash) and presents only current year activity.
- E. Difference due to rounding.

## Note 13 - Consolidated Statement of Financing

Allocation transfers represent the amount of budget resources transferred to other Federal agencies to carry out the purposes of the parent account. OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, requires transferor (parent) report the allocation transactions of their agency as part of their Statement of Budgetary Resources, while the recipient of allocation transfers reports the proprietary activity on its Balance Sheet, Statement of Net Cost of Operations, and Statement of Changes in Net Position. This process creates a reconciling difference titled "Components of Net Cost of Operations related to Transfer Accounts where Budget Accounts are reported by Other Federal Entities on the Statement of Financing."

In July 2006, an updated OMB Circular A-136 was issued to the Federal community delineating Federal financial reporting requirements. In prior versions of this guidance, Federal agencies (child) who received allocation transfers of another federal agency (parent) were allowed to report proprietary activity in their financial statements, if material to them. However, beginning in FY 2007, child agencies will be required to provide parent agencies with all of their financial activity. Only parent agencies will report this financial activity in their financial statements. Early implementation is allowed if both the parent and child agency agree.

In FY 2006, DOI and the Department of Transportation agreed to use the Federal Highway Trust Fund as a pilot for this new reporting requirement. The cumulative effect of this change in accounting principle resulted in a decrease of \$12 million to assets and liabilities on the FY 2006 Consolidated Balance Sheet. This also resulted in a \$14 million decrease to the beginning balance of cumulative results of operations on the Consolidated Statement of Changes in Net Position.

The following table presents information on the trading partner, or entity performing the transfer, the purpose of transfer, and the amount of reconciling differences on the Consolidated Statement of Financing.

Consolidated Statement of Financing -- Allocation Transfer Reconciling Items  
as of September 30, 2006 and 2005  
(dollars in thousands)

Trading Partner	Nature and Purpose of Transfer	2006	2005
<b>The Service as the Recipient Agency (Child):</b>			
Department of Transportation - Highway Trust Fund	Maintenance of Highways on Interior Land	\$ 191	\$ 6,688
Department of Labor - Job Corps	Employee and Training services	4,075	7,618
Dept. of Agriculture - USDA	Forest Pesticide Programs	332	229
Department of the Interior - Bureau of Land Management	Wildland Fire Management Fund & Central Hazardous Material Fund	86,961	70,939
Department of the Interior - Office of the Secretary	Natural Resources and Damage Assessment Fund	15,434	13,276
Department of the Interior-Bureau of Land Management	Permit processing for oil and gas drilling	524	-
<b>Net Allocation Transfer Reconciling Items</b>		<b>\$ 107,517</b>	<b>\$ 98,750</b>

## Note 14 - Consolidating Statement of Net Cost

The Government Performance and Results Act (GPRA) mandates that Federal agencies formulate strategic plans, identify major mission goals, and report performance and costs related to these goals. Under GPRA, strategic plans require revision and update every three years. Accordingly, the Service updated its strategic plan in FY 2004 and replaced the four mission goals and reporting responsibility segments with the new GPRA mission goals established for DOI. The mission goals applicable for FY 2006 are Resource Protection, Resource Use, Recreation, Serving Communities, and Management Excellence. The GPRA also requires that the Service report costs for the goals identified in the strategic plan. Accordingly, the Service presented earned revenue and gross costs by mission goals in the current Strategic Plan.

Earned revenue and gross costs relating to the Management Excellence mission goals are included in the Reimbursable and Other category. Unlike the FY 2005 allocation of revenues and costs based on estimates and trends, the FY 2006 costs and revenues were re-allocated using FY 2005 actual costs and revenues as a basis. Consequently, Management Excellence which presents costs and revenues associated with volunteer hours does not reflect costs or revenues for FY 2006.

Intragovernmental exchange revenue or exchange transactions made between the Service and another reporting entity within the Federal government has been listed separately from those exchange revenues with the public. A public exchange involves an exchange transaction between the Service and a non-Federal entity. If the Service purchased goods or services from another Federal entity and sold them to the public, the exchange revenue would be classified as "public"; however, the related costs would be classified as "Intragovernmental".

The Service presented costs associated with acquiring, constructing, and renovating heritage assets that were approximately \$24,000 for the period ended September 30, 2006 and approximately \$38,000 for the year ended September 30, 2005, respectively. The costs associated with acquiring and improving stewardship lands were approximately \$54 million for the year ended September 30, 2006 and approximately \$79 million the year ended September 30, 2005, respectively.

The supporting statements on the following pages present earned revenue, net cost of operations by mission goal, costs to the Service for work rendered, and end outcome for FY 2006 and FY 2005.

U.S. Department of the Interior  
U.S. Fish and Wildlife Service  
Consolidating Statement of Net Cost  
for the year ended September 30, 2006

	Total 2006	Endangered Species	Fisheries and Habitat Conservation	Servicewide Support	International Affairs	Law Enforcement	Migratory Birds and State Programs	National Wildlife Refuge System	Wildlife and Sport Fish Restoration	Elimination of Intra-Bureau Activity
<b>Resource Protection</b>										
Intragovernmental Costs	\$ 283,669	\$ 39,340	\$ 66,970	\$ 64,967	\$ 2,351	\$ 21,079	\$ 13,306	\$ 69,657	\$ 7,783	\$ (1,784)
Public Costs	1,432,900	191,918	289,278	190,692	12,844	47,617	81,243	271,279	348,029	-
Total Costs	1,716,569	231,258	356,248	255,659	15,195	68,696	94,549	340,936	355,812	(1,784)
Intragovernmental Earned Revenue	79,980	7,773	49,451	2,147	-	616	209	21,568	-	(1,784)
Public Earned Revenue	111,502	3,011	61,179	2,602	471	10,104	982	28,981	4,172	-
Total Earned Revenue	191,482	10,784	110,630	4,749	471	10,720	1,191	50,549	4,172	(1,784)
Net Cost	1,525,087	220,474	245,618	250,910	14,724	57,976	93,358	290,387	351,640	-
<b>Resource Use</b>										
Intragovernmental Costs	2,784	1,910	874	-	-	-	-	-	-	-
Public Costs	6,785	4,281	2,504	-	-	-	-	-	-	-
Total Costs	9,569	6,191	3,378	-	-	-	-	-	-	-
Intragovernmental Earned Revenue	46	46	-	-	-	-	-	-	-	-
Public Earned Revenue	31	31	-	-	-	-	-	-	-	-
Total Earned Revenue	77	77	-	-	-	-	-	-	-	-
Net Cost	9,492	6,114	3,378	-	-	-	-	-	-	-
<b>Recreation</b>										
Intragovernmental Costs	40,567	-	4,994	6,706	-	-	1,802	20,516	5,710	839
Public Costs	476,503	-	19,930	19,953	-	-	13,993	72,737	349,890	-
Total Costs	517,070	-	24,924	26,659	-	-	15,795	93,253	355,600	839
Intragovernmental Earned Revenue	10,415	-	7,741	213	-	-	-	1,622	-	839
Public Earned Revenue	4,516	-	1,854	261	-	-	-	2,401	-	-
Total Earned Revenue	14,931	-	9,595	474	-	-	-	4,023	-	839
Net Cost	502,139	-	15,329	26,185	-	-	15,795	89,230	355,600	-
<b>Serving Communities</b>										
Intragovernmental Costs	35,688	-	1,585	11,220	-	1	75	21,949	134	724
Public Costs	185,659	-	7,486	74,927	-	8	2,835	99,968	435	-
Total Costs	221,347	-	9,071	86,147	-	9	2,910	121,917	569	724
Intragovernmental Earned Revenue	7,281	-	2,444	320	-	-	-	3,793	-	724
Public Earned Revenue	5,810	-	585	390	-	-	-	4,603	232	-
Total Earned Revenue	13,091	-	3,029	710	-	-	-	8,396	232	724
Net Cost	208,256	-	6,042	85,437	-	9	2,910	113,521	337	-
<b>Total</b>										
Intragovernmental Costs	362,708	41,250	74,423	82,893	2,351	21,080	15,183	112,122	13,627	(221)
Public Costs	2,101,847	196,199	319,198	285,572	12,844	47,625	98,071	443,984	698,354	-
Total Costs	2,464,555	237,449	393,621	368,465	15,195	68,705	113,254	556,106	711,981	(221)
Intragovernmental Earned Revenue	97,722	7,819	59,636	2,680	-	616	209	26,983	-	(221)
Public Earned Revenue	121,859	3,042	63,618	3,253	471	10,104	982	35,985	4,404	-
Total Earned Revenue	219,581	10,861	123,254	5,933	471	10,720	1,191	62,968	4,404	(221)
Net Cost of Operations	\$ 2,244,974	\$ 226,588	\$ 270,367	\$ 362,532	\$ 14,724	\$ 57,985	\$ 112,063	\$ 493,138	\$ 707,577	\$ -

U.S. Department of the Interior  
U.S. Fish and Wildlife Service  
Consolidating Statement of Net Cost  
for the year ended September 30, 2005  
(dollars in thousands)

	Total 2005	Endangered Species	Fisheries and Habitat Conservation	Servicewide Support	International Affairs	Law Enforcement	Migratory Birds and State Programs	National Wildlife Refuge System	Wildlife and Sport Fish Restoration	Other	Elimination of Intra-Bureau Activity
<b>Resource Protection</b>											
Intragovernmental Costs	\$ 242,097	\$ 35,938	\$ 62,817	\$ 51,694	\$ 2,101	\$ 21,146	\$ 7,368	\$ 61,209	\$ 4,021	\$ -	\$ (4,197)
Public Costs	1,317,432	190,065	247,370	216,694	13,317	47,173	71,368	213,272	318,173	-	-
Total Costs	1,559,529	226,003	310,187	268,388	15,418	68,319	78,736	274,481	322,194	-	(4,197)
Intragovernmental Earned Revenue	76,250	8,513	50,491	2,455	-	360	217	18,411	-	-	(4,197)
Public Earned Revenue	74,560	1,638	35,559	1,813	249	8,823	312	26,166	-	-	-
Total Earned Revenue	150,810	10,151	86,050	4,268	249	9,183	529	44,577	-	-	(4,197)
<b>Net Cost</b>	<b>1,408,719</b>	<b>215,852</b>	<b>224,137</b>	<b>264,120</b>	<b>15,169</b>	<b>59,136</b>	<b>78,207</b>	<b>229,904</b>	<b>322,194</b>	<b>-</b>	<b>-</b>
<b>Resource Use</b>											
Intragovernmental Costs	8,225	7,470	4	649	-	-	-	102	-	-	-
Public Costs	20,518	16,556	96	2,406	-	1	-	1,459	-	-	-
Total Costs	28,743	24,026	100	3,055	-	1	-	1,561	-	-	-
Intragovernmental Earned Revenue	169	167	-	-	-	-	-	2	-	-	-
Public Earned Revenue	71	71	-	-	-	-	-	-	-	-	-
Total Earned Revenue	240	238	-	-	-	-	-	2	-	-	-
<b>Net Cost</b>	<b>28,503</b>	<b>23,788</b>	<b>100</b>	<b>3,055</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>1,559</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Recreation</b>											
Intragovernmental Costs	62,820	-	3,852	19,646	-	1	3,860	29,326	3,496	-	2,639
Public Costs	501,564	-	16,517	77,384	-	3	20,257	114,707	272,696	-	-
Total Costs	564,384	-	20,369	97,030	-	4	24,117	144,033	276,192	-	2,639
Intragovernmental Earned Revenue	13,021	-	5,974	925	-	-	164	3,319	-	-	2,639
Public Earned Revenue	9,517	-	1,664	682	-	-	325	6,846	-	-	-
Total Earned Revenue	22,538	-	7,638	1,607	-	-	489	10,165	-	-	2,639
<b>Net Cost</b>	<b>541,846</b>	<b>-</b>	<b>12,731</b>	<b>95,423</b>	<b>-</b>	<b>4</b>	<b>23,628</b>	<b>133,868</b>	<b>276,192</b>	<b>-</b>	<b>-</b>
<b>Serving Communities</b>											
Intragovernmental Costs	34,892	-	4,134	5,897	-	-	-	24,359	-	-	502
Public Costs	129,140	-	21,506	22,983	-	3	7	84,641	-	-	-
Total Costs	164,032	-	25,640	28,880	-	3	7	109,000	-	-	502
Intragovernmental Earned Revenue	5,851	-	4,060	178	-	-	-	1,111	-	-	502
Public Earned Revenue	7,878	-	5,837	131	-	-	-	1,910	-	-	-
Total Earned Revenue	13,729	-	9,897	309	-	-	-	3,021	-	-	502
<b>Net Cost</b>	<b>150,303</b>	<b>-</b>	<b>15,743</b>	<b>28,571</b>	<b>-</b>	<b>3</b>	<b>7</b>	<b>105,979</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Reimbursable Activity and Other</b>											
Intragovernmental Costs	(3,621)	-	236	-	-	-	-	834	-	(4,690)	(1)
Public Costs	3,645	-	998	-	-	-	-	2,647	-	-	-
Total Costs	24	-	1,234	-	-	-	-	3,481	-	(4,690)	(1)
Intragovernmental Earned Revenue	494	-	385	-	-	-	-	110	-	-	(1)
Public Earned Revenue	279	-	111	-	-	-	-	168	-	-	-
Total Earned Revenue	773	-	496	-	-	-	-	278	-	-	(1)
<b>Net Cost</b>	<b>(749)</b>	<b>-</b>	<b>738</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,203</b>	<b>-</b>	<b>(4,690)</b>	<b>-</b>
<b>Total</b>											
Intragovernmental Costs	344,413	43,408	71,043	77,886	2,101	21,147	11,228	115,830	7,517	(4,690)	(1,057)
Public Costs	1,972,299	206,621	286,487	319,467	13,317	47,180	91,632	416,726	590,869	-	-
Total Costs	2,316,712	250,029	357,530	397,353	15,418	68,327	102,860	532,556	598,386	(4,690)	(1,057)
Intragovernmental Earned Revenue	95,785	8,680	60,910	3,558	-	360	381	22,953	-	-	(1,057)
Public Earned Revenue	92,305	1,709	43,171	2,626	249	8,823	637	35,090	-	-	-
Total Earned Revenue	188,090	10,389	104,081	6,184	249	9,183	1,018	58,043	-	-	(1,057)
<b>Net Cost of Operations</b>	<b>\$ 2,128,622</b>	<b>\$ 239,640</b>	<b>\$ 253,449</b>	<b>\$ 391,169</b>	<b>\$ 15,169</b>	<b>\$ 59,144</b>	<b>\$ 101,842</b>	<b>\$ 474,513</b>	<b>\$ 598,386</b>	<b>\$ (4,690)</b>	<b>\$ -</b>

## C. Required Supplementary Information

Required Supplementary Information (RSI) covers:

1. Combining Statement of Budgetary Resources, Net Outlays
2. Facilities Management
3. Stewardship Lands
4. Heritage Assets

## Combining Statement of Budgetary Resources

U.S. Department of the Interior  
U.S. Fish and Wildlife Service  
Combining Statement of Budgetary Resources  
for the year ended September 30, 2006  
(dollars in thousands)

	Total Budgetary Accounts	Resource Management	Grants				Other Budgetary Accounts
			Sportfish Restoration	Federal Aid in Wildlife Restoration	Other Grants	Total Grants	
<b>Budgetary Resources:</b>							
Unobligated Balance, Beginning of Fiscal Year:	\$ 668,676	\$ 70,377	\$ 161,948	\$ 47,273	\$ 241,216	\$ 450,437	\$ 147,862
Recoveries of Prior Year Unpaid Obligations	65,846	17,399	23,953	11,647	8,675	44,275	4,172
Budget Authority							
Appropriation	1,791,245	1,016,279	(75,957)	265,299	272,687	462,029	312,937
Spending Authority from Offsetting Collections							
Earned							
Collected	214,103	203,249	-	-	103	103	10,751
Change in Receivables from Federal Sources	(1,319)	(3,955)	-	-	-	-	2,636
Change in Unfilled Customer Orders							
Advance Received	2,087	2,090	-	-	-	-	(3)
Without Advance from Federal Sources	(65,749)	(54,418)	-	-	-	-	(11,331)
Total Budget Authority	1,940,367	1,163,245	(75,957)	265,299	272,790	462,132	314,990
Nonexpenditure Transfers, Net, Anticipated and Actual	440,520	10,590	439,930	-	-	439,930	(10,000)
Temporarily Not Available Pursuant to Public Law	(6,067)	-	-	-	(5,649)	(5,649)	(418)
Permanently Not Available	(16,576)	(14,946)	-	-	(743)	(743)	(887)
<b>Total Budgetary Resources</b>	<b>\$ 3,092,766</b>	<b>\$ 1,246,665</b>	<b>\$ 549,874</b>	<b>\$ 324,219</b>	<b>\$ 516,289</b>	<b>\$ 1,390,382</b>	<b>\$ 455,719</b>
<b>Status of Budgetary Resources:</b>							
Obligations Incurred:							
Direct	\$ 2,274,042	\$ 1,044,070	\$ 402,520	\$ 253,892	\$ 314,259	\$ 970,671	\$ 259,301
Reimbursable	128,754	126,586	-	-	-	-	2,168
Total Obligations Incurred	2,402,796	1,170,656	402,520	253,892	314,259	970,671	261,469
Unobligated Balance Available:							
Apportioned	688,333	74,372	147,354	70,327	202,030	419,711	194,250
Unobligated Balance Not Available	1,637	1,637	-	-	-	-	-
<b>Total Status of Budgetary Resources</b>	<b>\$ 3,092,766</b>	<b>\$ 1,246,665</b>	<b>\$ 549,874</b>	<b>\$ 324,219</b>	<b>\$ 516,289</b>	<b>\$ 1,390,382</b>	<b>\$ 455,719</b>
<b>Change in Obligated Balance:</b>							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward, Beginning of Fiscal Year	\$ 1,431,938	\$ 386,568	\$ 360,177	\$ 203,633	\$ 386,285	\$ 950,095	\$ 95,275
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, Beginning of Fiscal Year	(144,996)	(133,230)	-	-	-	-	(11,766)
Total Unpaid Obligated Balances, Net	1,286,942	253,338	360,177	203,633	386,285	950,095	83,509
Obligations Incurred, Net	2,402,796	1,170,656	402,520	253,892	314,259	970,671	261,469
Less: Gross Outlays	(2,249,141)	(1,200,078)	(365,160)	(257,023)	(223,560)	(845,743)	(203,320)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(65,846)	(17,399)	(23,953)	(11,647)	(8,675)	(44,275)	(4,172)
Change in Uncollected Customer Payments from Federal Sources	67,068	58,373	-	-	-	-	8,695
<b>Total Unpaid Obligated Balance, Net, End of Period</b>	<b>\$ 1,441,819</b>	<b>\$ 264,890</b>	<b>\$ 373,584</b>	<b>\$ 188,855</b>	<b>\$ 468,309</b>	<b>\$ 1,030,748</b>	<b>\$ 146,181</b>
<b>Obligated Balance, Net, End of Period - By Component</b>							
Unpaid Obligations	\$ 1,519,748	\$ 339,747	\$ 373,584	\$ 188,855	\$ 468,309	\$ 1,030,748	\$ 149,253
Less: Uncollected Customer Payments from Federal Sources	(77,929)	(74,857)	-	-	-	-	(3,072)
<b>Total Unpaid Obligated Balance, Net, End of Period</b>	<b>\$ 1,441,819</b>	<b>\$ 264,890</b>	<b>\$ 373,584</b>	<b>\$ 188,855</b>	<b>\$ 468,309</b>	<b>\$ 1,030,748</b>	<b>\$ 146,181</b>
<b>Net Outlays:</b>							
Net Outlays							
Gross Outlays	\$ 2,249,141	\$ 1,200,078	\$ 365,160	\$ 257,023	\$ 223,560	\$ 845,743	\$ 203,320
Less: Offsetting Collections	(216,190)	(205,339)	-	-	(103)	(103)	(10,748)
Less: Distributed Offsetting receipts	(75,625)	-	-	(14,176)	(39,302)	(53,478)	(22,147)
<b>Net Outlays(Receipts)</b>	<b>\$ 1,957,326</b>	<b>\$ 994,739</b>	<b>\$ 365,160</b>	<b>\$ 242,847</b>	<b>\$ 184,155</b>	<b>\$ 792,162</b>	<b>\$ 170,425</b>

U.S. Department of the Interior  
U.S. Fish and Wildlife Service  
Combining Statement of Budgetary Resources  
for the year ended September 30, 2005  
(dollars in thousands)

	Total Budgetary Accounts	Resource Management	Sportfish Restoration	Grants			Other Budgetary Accounts
				Federal Aid in Wildlife Restoration	Other Grants	Total Grants	
<b>Budgetary Resources:</b>							
Unobligated Balance, Beginning of Fiscal Year:	\$ 663,852	\$ 63,428	\$ 186,894	\$ 57,349	\$ 213,272	\$ 457,515	\$ 142,909
Recoveries of Prior Year Unpaid Obligations	81,120	16,887	30,686	15,424	16,174	62,284	1,949
Budget Authority							
Appropriation	2,169,124	977,205	460,752	251,218	271,611	983,581	208,338
Spending Authority from Offsetting Collections							
Earned							
Collected	162,002	152,797	-	-	42	42	9,163
Change in Receivables from Federal Sources	12,345	12,579	-	-	-	-	(234)
Change in Unfilled Customer Orders							
Advance Received	838	1,328	-	-	-	-	(490)
Without Advance from Federal Sources	(11,140)	(19,766)	-	-	-	-	8,626
Total Budget Authority	2,333,169	1,124,143	460,752	251,218	271,653	983,623	225,403
Nonexpenditure Transfers, Net, Anticipated and actual	(122,472)	11,083	(122,055)	-	-	(122,055)	(11,500)
Temporarily Not Available Pursuant to Public Law	(3,030)	-	-	-	(2,509)	(2,509)	(521)
Permanently Not Available	(15,919)	(14,312)	-	-	(664)	(664)	(943)
<b>Total Budgetary Resources</b>	<b>\$ 2,936,720</b>	<b>\$ 1,201,229</b>	<b>\$ 556,277</b>	<b>\$ 323,991</b>	<b>\$ 497,926</b>	<b>\$ 1,378,194</b>	<b>\$ 357,297</b>
<b>Status of Budgetary Resources:</b>							
Obligations Incurred:							
Direct	\$ 2,105,297	\$ 985,550	\$ 394,329	\$ 276,718	\$ 256,710	\$ 927,757	\$ 191,990
Reimbursable	162,747	145,302	-	-	-	-	17,445
Total Obligations Incurred	2,268,044	1,130,852	394,329	276,718	256,710	927,757	209,435
Unobligated Balance Available:							
Apportioned	666,380	68,081	161,948	47,273	241,216	450,437	147,862
Unobligated Balance Not Available	2,296	2,296	-	-	-	-	-
<b>Total Status of Budgetary Resources</b>	<b>\$ 2,936,720</b>	<b>\$ 1,201,229</b>	<b>\$ 556,277</b>	<b>\$ 323,991</b>	<b>\$ 497,926</b>	<b>\$ 1,378,194</b>	<b>\$ 357,297</b>
<b>Change in Obligated Balance:</b>							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward, Beginning of Fiscal Year	\$ 1,363,399	\$ 399,346	\$ 327,456	\$ 185,392	\$ 362,601	\$ 875,449	\$ 88,604
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, Beginning of Fiscal Year	(143,791)	(140,416)	-	-	-	-	(3,375)
Total Unpaid Obligated Balances, Net	1,219,608	258,930	327,456	185,392	362,601	875,449	85,229
Obligations Incurred, Net	2,268,044	1,130,852	394,329	276,718	256,710	927,757	209,435
Less: Gross Outlays	(2,118,385)	(1,126,743)	(330,922)	(243,053)	(216,852)	(790,827)	(200,815)
Less: Recoveries of Prior Year unpaid Obligations, Actual	(81,120)	(16,887)	(30,686)	(15,424)	(16,174)	(62,284)	(1,949)
Change in uncollected customer payments from Federal sources	(1,205)	7,186	-	-	-	-	(8,391)
<b>Total change in Obligated Balance</b>	<b>\$ 1,286,942</b>	<b>\$ 253,338</b>	<b>\$ 360,177</b>	<b>\$ 203,633</b>	<b>\$ 386,285</b>	<b>\$ 950,095</b>	<b>\$ 83,509</b>
Obligated Balance, Net, End of Period							
Unpaid Obligations	\$ 1,431,938	\$ 386,568	\$ 360,177	\$ 203,633	\$ 386,285	\$ 950,095	\$ 95,275
Less: Uncollected Customer Payments from Federal Sources	(144,996)	(133,230)	-	-	-	-	(11,766)
<b>Total Unpaid Obligated Balance, Net, End of Period</b>	<b>\$ 1,286,942</b>	<b>\$ 253,338</b>	<b>\$ 360,177</b>	<b>\$ 203,633</b>	<b>\$ 386,285</b>	<b>\$ 950,095</b>	<b>\$ 83,509</b>
<b>Net Outlays:</b>							
Net Outlays							
Gross Outlays	\$ 2,118,385	\$ 1,126,743	\$ 330,922	\$ 243,053	\$ 216,852	\$ 790,827	\$ 200,815
Less: Offsetting Collections	(162,840)	(154,125)	-	-	(42)	(42)	(8,673)
Less: Distributed Offsetting Receipts	(35,186)	-	-	(12,411)	-	(12,411)	(22,775)
<b>Net Outlays(Receipts)</b>	<b>\$ 1,920,359</b>	<b>\$ 972,618</b>	<b>\$ 330,922</b>	<b>\$ 230,642</b>	<b>\$ 216,810</b>	<b>\$ 778,374</b>	<b>\$ 169,367</b>

## Facilities Management

## Deferred Maintenance

Water management facilities, fish hatcheries, visitor centers, buildings, roads, dikes, dams, bridges, and other facilities represent a major investment by the American people in resources that support the mission of the Service. Annually, the Service must defer needed maintenance because of budget constraints. Deferring maintenance of facilities leads to accelerated deterioration that can adversely affect public and employee health and safety, disrupt operations of the Service, and compromise the conservation of fish and wildlife resources.

Estimating deferred maintenance requires the professional judgment of numerous site managers gathering information from multiple sources. These estimates can represent average costs among several sources or the last estimate increased over time to accommodate inflation. Each method is acceptable. However, estimates may vary by 15% above or below any discrete number provided.

The Service's estimates of deferred maintenance are aggregate estimates for all facilities and for all property related to facility operations and represent estimates of bringing existing facilities into a functional or acceptable operating condition. Equipment replacement is excluded from this estimate.

The Service's method of calculating deferred maintenance employs condition assessment surveys and is consistent with calculations made by the other bureaus within the DOI. Condition assessments of the Service's public road systems have resulted in downward revisions of the deferred maintenance estimates. In addition, the Service has converted to a new operating system, Service Asset and Maintenance Management System, allowing for a more accurate accountability of deferred maintenance needs. This increased accuracy, along with more projects being completed, has resulted in a decrease in the Service's deferred maintenance backlog estimates.

Deferred maintenance for Service facilities is estimated at approximately \$1.67 billion, plus or minus 15%, placing the range between approximately \$1.42 billion and \$1.92 billion for all facilities under the jurisdiction of the Service.

The table below shows deferred maintenance projections by assets category:

**Estimated Range of Deferred Maintenance**  
as of September 30, 2006  
(dollars in thousands)

Type of Deferred Maintenance	Item(s) Covered Note (1)	Condition Category Note (2)	General PP&E		Stewardship PP&E		Total	
			Low	High	Low	High	Low	High
Financial Statement Estimated Deferred Maintenance								
Roads Bridges and Trails	A,B,C,D	Poor	\$471,641	\$638,103	\$294,129	\$397,939	\$765,770	\$1,036,042
Irrigation, Dams, and Other Water Structures	A,B,C,D	Fair	93,597	126,631	158,265	214,123	251,862	340,754
Buildings (e.g., Administration, Education, Housing, Historic Buildings)	A,B,C,D	Poor	235,482	318,594	1,694	2,292	237,176	320,886
Other Structures (e.g., Recreation Sites, Hatcheries, etc.)	A,B,C,D	Fair	163,320	220,962	463	627	163,783	221,589
Total FWS			\$964,040	\$1,304,290	\$454,551	\$614,981	\$1,418,591	\$1,919,271

### Note (1) Category:

- A - Critical Health and Safety Deferred Maintenance: A facility deferred maintenance need that poses a serious threat to public or employee safety
- B - Critical Resource Protection Deferred Maintenance: A facility deferred maintenance need that poses a serious threat to natural or cultural resources.
- C - Critical Mission Deferred Maintenance: A facility deferred maintenance need that poses a serious threat to a bureau's ability to carry out its assigned mission.
- D - Compliance and other Deferred Maintenance: A facility deferred maintenance need that will improve public or employee safety, health, or accessibility: compliance with codes, standards, laws, complete unmet programmatic needs and mandated programs; protection of natural or cultural resources to a bureau's ability to carry out its assigned mission.

### Note (2) Condition Assessment:

- Good - Facility/equipment condition meets established maintenance standards, operates efficiently, and has a normal life
- Fair - Facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency, and to achieve normal life expectancy
- Poor - Facility/equipment does not meet most maintenance standards and requires frequent repairs to prevent accelerated deterioration and provide a minimal level of operating function. In some cases that includes condemned or failed facilities.

Based on periodic condition assessments, an indicator of condition is the percent of facilities and items of equipment in each of the good, fair, or poor categories.

A standard measure of condition for facilities, known as the Facilities Condition Index (FCI), is a ratio of the estimates of deferred maintenance needs to the estimates of replacing facilities at today's costs. The FCI illustrates the portion of an institution's capital amount that it would have to spend to eliminate the deferred maintenance. If the ratio of accumulated deferred maintenance to replacement value is from 0 to .05, the condition of the facilities is considered "good." If the ratio is greater than .05 but less than .10, the condition is considered "fair" and if the ratio is .10 or greater, then condition is considered "poor". The combined FCI for all Service facilities is estimated at approximately .11, meaning that the overall condition of Service facilities is "poor." (A discussion of the FCI for Service recreation facilities is included in the Management's Discussion and Analysis section of this report.)

### **Equipment Replacement and Repair**

Although the estimates for deferred maintenance exclude associated equipment, the Service is tracking equipment needs in much the same manner as it tracks facility condition and maintenance. As with its facilities, the Service has determined that much of its equipment is in poor condition and, thus, in need of repair, rehabilitation, or replacement.

## **Stewardship Lands**

Land is defined as the solid part of the surface of the earth and excludes natural resources (i.e., exhaustible resources and renewable resources) related to the land. Based on this definition, stewardship land is considered to be in acceptable condition unless an environmental contamination or liability is identified and the land cannot be used for its intended purpose(s). Information regarding the financial liabilities identified as probable or reasonably possible and that affect the condition of Stewardship Land are located in Note 8, *Contingent Liabilities and Environmental and Disposal Liabilities*.

The Service has 886 land units located in 34 States. Land units within the NWRS include 547 refuge units, 203 Waterfowl Production Areas Counties, and 50 Coordination Areas. Land units and facilities within the National Fish Hatcheries System (NFHS) comprise 69 National Fish Hatcheries, 7 Fish Technology Centers, 9 Fish Health Centers, and 1 Historical National Fish Hatchery.

### **Uses of Stewardship Lands**

Lands managed within the NWRS are used by statute to conserve and manage fish, wildlife, and plant resources for the benefit of present and future generations. While the needs of fish and wildlife must come first, refuges welcome those who want to enjoy the natural world, to observe or photograph wildlife, to hunt or to fish, or to study and learn about wildlife and their needs.

Stewardship of the Nation's fishery and aquatic resources, through the NFHS, has been a core responsibility of the Service for more than 130 years. The Service participates in managing all units within the NFHS system, although it does not own all the lands and facilities. In addition to conservation, restoration, and management of fish and wildlife resources and their habitats, the NFHS provides recreational opportunities to the public, such as fishing, hiking, and bird watching.

Stewardship lands managed by the Service are used and managed in accordance with the explicit purpose of the statutes that authorize their acquisition or designation and that direct their use and management. The Service manages lands within the NWRS so that the fish, wildlife, and plants that depend on these lands for habitat benefit over both the short and long term. Lands placed in the NWRS are protected in perpetuity for as long as they remain in the NWRS. As new lands enter the NWRS, they are managed to maintain their natural state, to mitigate adverse effects of actions previously conducted by others, or to enhance existing conditions to improve benefits to fish, wildlife, and plant resources. The Service safeguards the stewardship values of the lands it administers through management actions taken on individual refuges; however, such actions are taken in consideration of the needs and purposes of the entire NWRS.

### **Net Change in Stewardship Land from 2005 to 2006**

The Service increased the number of National Wildlife Refuges in FY 2006 from 545 to 547. The Rocky Mountain Front Conservation area was established in Montana and the Neches River National Wildlife Refuge was established in Texas. The size of some units changed during the year, resulting in a net increase in Service stewardship land. The Service defines a unit of stewardship land as a Natural Wildlife Refuge, a National Fish Hatchery, a Wetland Management District, or other Presidentially, Congressionally, or Secretarially designated area of land that the Service manages. These lands provide permanent protection for valuable wetland, riparian, coastal, and upland habitat for fish, wildlife, and plant species, including threatened and endangered species.

## Land Reporting and Heritage Assets

FWS	10-1-05 Count			Additions			Withdrawals			9-30-06 Count			Condition of Land Units expressed in Number of Units per Category			Condition of Structurally Based Units Expressed in Number of Units per Category			
Land	Land Units		Total	Land Units		Total	Land Units		Total	Land Units		Total	Acceptable	Needs Intervention	Total	Acceptable	Unacceptable	Unknown	Total
Primary Land Management Categories																			
FWS-National Wildlife Refuges	545		545	2		-	-		-	547		547	543	4	547				
FWS-National Fish Hatcheries	86		86	-		-	-		-	86		86	86	-	86				
FWS - Wetland Mangement Districts	37		37	-		-	-		-	37		37	37	-	37				
													Land Based Units			Structurally Based Units			
Primary Non Collectible Heritage Asset Categories (With Presidential (p), Congressional (c) or Secretarial (s) designation)	Land Based	Structural	Total	Land Based	Structural	Total	Land Based	Structural	Total	Land Based	Structural	Total	Acceptable	Needs Intervention	Total	Acceptable	Unacceptable	Unknown	Total
National Historic Landmarks (NHL)	-	9	9	-	-	-	-	-	-	-	9	9	-	-	-	-	-	9	9
National Monuments	1	-	1	1	-	1	-	-	-	2	-	2	2	-	2	-	-	-	-
National Natural Landmarks (NNL)	42	-	42	-	-	-	-	-	-	42	-	42	42	-	42	-	-	-	-
National Recreation Trails	-	37	37	-	7	7	-	-	-	-	44	44	-	-	-	44	-	-	44
National Wild and Scenic Rivers	8	-	8	-	-	-	-	-	-	8	-	8	8	-	8	-	-	-	-
National Wildlife Refuges	545	-	545	2	-	-	-	-	-	547	-	547	543	4	547	-	-	-	-
Wilderness Areas	75	-	75	-	-	-	-	-	-	75	-	75	75	-	75	-	-	-	-
Total	671	46	717	3	7	8	-	-	-	674	53	727	670	4	674	44	-	9	53
Interior Museum Collections		Museum Units											Condition of Facilities Housing Collections						
Units	10-1-05 Count			Additions			Withdrawals			9-30-06 Count			Good	Fair	Poor	Unknown	Total		
Held at Interior Bureau Facilities	137			-			-			137			-	-	-	137	137		
Held at Non-Interior Bureau Facilities	217			-			-			217			23	56	2	136	217		
Total	354			-			-			354			23	56	2	273	354		
Note: Some Presidentially, Congressionally or Secretarially designated areas may overlap with either land designations or other designations where there is more than one use/priority for the land.																			

## Heritage Assets

### Condition of Heritage Assets Facilities

The Service defines those sites and facilities under its administration that have nationally recognized historical or cultural designations as heritage assets. From this information, the Service concludes that the infrastructure that supports the mission work of the Service is suffering from accelerated deterioration. Overall, the numerous facilities managed by the Service, which include heritage assets, are in need of some form of repair.

### Cultural Resources

Lands managed by the Service are particularly important for protecting significant sites associated with the Nation's prehistory and history. By closely examining their geographic distribution, an obvious pattern unfolds. The Service lands are located along major river corridors, coastal areas, or in association with wetlands and North America's migratory bird flyways. These same areas have been used by humans for thousands of years for transportation, settlement, and subsistence. Archaeological and historic sites located on these lands contribute important information on changes to habitat and wildlife over time. They also offer fish and wildlife conservation partnership opportunities with local communities and tribes.

As of FY 2006, the Service documented over 20,075 cultural resources (prehistoric and historic sites and historic structures) on a small percentage of its lands (less than 1%) and estimates that it is responsible for tens of thousands of additional sites yet to be identified. The Service defines a cultural resources unit of measure as the property, e.g., the landmark, the site, etc.

Cultural resources range in age from a segment of the Lewis and Clark National Historic Trail on the Charles M. Russell NWR in Montana to a cultural landscape and setting for events connected to the Underground Railroad at Great Dismal Swamp NWR. Cultural properties managed by the Service reflect our Nation's rich heritage and diversity.

The Service also manages two National Monuments, nine National Historic Landmarks and 42 National Natural Landmarks designated by the President and Secretary of the Interior, respectively, to protect and recognize sites of exceptional importance.

The physical condition of cultural resources managed by the Service varies tremendously, depending on location, maintenance, use, and type of resource. No comprehensive assessment is available. The Service estimates that a minimum of 10 years is required to assess the condition of identified cultural resources under its jurisdiction.

Inventories and records of archaeological and historic sites are maintained by each Service Regional Office for field stations under its jurisdiction. The Service-wide information on the number and status of archaeological properties is summarized each year for the Secretary of the Interior's report to Congress required by the Archaeological Resources Protection Act.

## Museum Collections

Based on the most current assessment, the Service's museum collections consist of millions of objects, documents, and specimens maintained in 137 offices or on loan to 217 non-federal repositories for study and long-term care. The Service reports at the collection level for this category. Collections consist of archaeological materials excavated from the Service managed cultural resources; paleontological collections; objects and documents associated with the agency's history; wildlife art; and, wildlife, fisheries, and botanical specimens. The Service collections are used for educational and interpretive programs, research on changes to habitat and wildlife, and maintaining the history and traditions of the Service programs and employees.

The Service maintains a collection of artwork at the Academy of Natural Sciences of Philadelphia under a long-term loan agreement. The collection consists of 487 pieces of artwork created by notable painters such as Louis Agassiz Fuertes, Ernest Thompson Seton, and Jay Norwood (Ding) Darling. The artists were commissioned by the Bureau of Biological Survey, a predecessor to the Service, during the late 19th and early 20th centuries to depict various wildlife species and landscapes for use in government publications. Under the agreement, the Academy maintains the collection in a climate-controlled and secure storage area to prevent deterioration and loss.

The Service continues to accession new museum collections each year, primarily resulting from scientifically controlled excavation of archaeological sites on its lands. The overall condition of Service museum collections is adequate to good. Over 82% of the Service collections are maintained on loan by museums and other institutions. The Service ensures that these collections are safeguarded through compliance with the Secretary of the Interior's curation standards found in the Code of Federal Regulations, 36 CFR 79. Institutions must maintain the appropriate environmental, record keeping, and security controls in order to qualify for maintaining federal collections.

Information standards for tracking the location, provenance or origin, and condition of museum collections are addressed by the Service policy and data standards released in FY 1998. In an effort to assist field stations in managing their collections, the Service released a new museum property software package for tracking essential information and preparing annual reports. The Museum Property working group, launched in FY 2005, has focused on several key issues for better management of this asset including better identification of non-Federal repositories.

During FY 2006, a new phase of work contracted through the U.S. Army Corps of Engineers neared completion. The project has taken a national focus in identifying museum collections on field stations and developing suggestions for how to better maintain the materials as well as use them for education and interpretation.

In FY 2006, the Service became the chair of the newly formed Heritage Asset Partnership, a DOI committee charged with providing expertise to the Department in its heritage asset management functions. To date, the Partnership has assisted and commented on guidance for Deferred Maintenance and has produced comments on recently completed Bureau asset management plans.

## **Wild and Scenic Rivers**

With the passage of the Wild and Scenic Rivers Act in 1968, Congress established the National Wild and Scenic Rivers System to preserve and protect free-flowing rivers that possess outstandingly remarkable scenic, recreational, geologic, fish and wildlife, historic, cultural, or other similar values. An eligible river may be added to the National System by an act of Congress or by the Secretary of the Interior upon application of the governor of a State. Designated rivers, or sections of rivers, are classified and administered as wild, scenic, or recreational depending upon the extent of development and accessibility along each section. Uses compatible with the management goals of a particular river are allowed. Development that does not damage the outstanding resources of a designated river, or curtail its free flow, is usually allowed.

The Wild and Scenic Rivers Act has been amended many times to designate additional rivers and authorize eligibility studies. Today, the National System includes 11,303 river miles in 163 river units. Designated rivers are administered by 1 of 4 Federal agencies (Service, U.S. National Park Service, U.S. Bureau of Land Management, and U.S. Forest Service) or the States. The Service manages 1,051 of these river miles on 8 rivers. All but one of these rivers are in Alaska.

## **Wilderness**

Designations ensure that lands in the National Wilderness Preservation System are preserved and protected in their natural state. Wilderness is “where the earth and its community of life are untrammeled by man and where man himself is a visitor who does not remain.” Of the approximately 106 million acres in the National Wilderness Preservation System, the Service manages 75 wilderness units encompassing over 20 million acres in 26 States. This total represents approximately 20% of the National Wilderness Preservation System. The Service protects and manages these undeveloped areas to preserve their wilderness character, and administers them for the use and enjoyment of the American people. Although the majority of the Refuge System wilderness acres are located in Alaska, the majority of wilderness areas are in the lower 48 States including those at Agassiz NWR in Minnesota and Lostwood NWR in North Dakota.

Information on wilderness areas is reported each year in the Service Annual Report of Lands Under Control of the Service. Wilderness areas contribute significantly to the Service’s mission and to the purposes for which the Refuge System was authorized by sustaining healthy ecosystems and wildlife habitat.

## **D. Required Supplementary Stewardship Information**

Required Supplementary Stewardship Information (RSSI) covers:

1. Investment in Human Capital
2. Investment in Non-Federal Physical Property

## Investment in Human Capital

Stewardship investment in human capital refers to education and training programs financed by the Federal government for the benefit of the public. The U.S. Department of Labor administers the Job Corps Program, which provides training and educational opportunities for at-risk young people aged 16 to 24 years old. The Service used operating funds by the U.S. Department of Labor for its participation in the program, and operated the Treasure Lake Job Corps Civilian Conservation Center, located on the Wichita Mountains National Wildlife Refuge near Indianahoma, Oklahoma. Effective January 2005, operation of the Mingo Job Corps Center was transferred from the Service to the U.S. Forest Service. Effective July 2006, operation of the Treasure Lake Job Corps Center was transferred from the Service to the Bureau of Reclamation.

Information on the funds provided by the U.S. Department of Labor is included in the table below:

	Investment in Human Capital (dollars in millions)					Total
	2002	2003	2004	2005 *	2006 **	
Total Job Corps Program	\$12.30	\$12.30	\$11.90	\$7.60	\$4.73	\$48.83

\* The 2005 amount reflects the transfer of operation of the Mingo Job Corps Center to the U.S. Forest Service.

\*\* The 2006 amount reflects the transfer of operation of the Treasure Lake Job Corps Center to the Bureau of Reclamation.

Job Corps Centers are rated, among other factors, on the attainment of goals for graduations and student placement in jobs once students leave the program. For FY 2006, the Treasure Lake Center's statistics are as follows for the number of students served, graduates, and placements:

- 390 Students Serviced
- 122 Graduates
- 104 Placements

## Investment in Non-Federal Physical Property

Stewardship investment in non-Federal physical property refers to expenses incurred by the Federal government for the purchase, construction, or the major renovation of physical property owned by State or local governments. Such investments include major additions, alterations or replacements; the purchase of major equipment; and, the purchase or improvements of other physical assets for purposes of enhancing fish and wildlife management in States and for land restoration, species protection, recreational hunting and boating improvements, and habitat loss prevention. Expenses for maintenance and operations are not considered investments. In FY 2006, the Service provided \$153.4 million in grants to State and local governments that resulted in the purchase, construction, or major renovation of physical property they own. The amounts provided for non-Federal physical property are provided below.

### Investment in Non-Federal Physical Property (dollars in millions)

Property Type	2002*	2003	2004	2005	2006	Total
Dams and Other Water Structures		\$62	\$37.6	\$33	\$73.8	\$206.4
Land		52	84.6	64	43.6	244.2
Roads and Bridges**				13	10.7	23.7
Schools and Public Buildings**				11	22.2	33.2
Not Classified	169				3.1	172.1
<b>Total</b>	<b>\$169</b>	<b>\$114</b>	<b>\$122.2</b>	<b>\$121</b>	<b>\$153.4</b>	<b>\$679.6</b>

\* Not categorized

\*\* Roads and Bridges and Schools and Public Buildings categories were not used prior to 2005.

## IV. Independent Auditors' Report

The Independent Auditors' Report covers:

- Memorandum: Independent Auditors' Report on the Fish and Wildlife Service's Financial Statements for Fiscal Years 2006 and 2005
- Attachment 1: KPMG LLP Independent Auditors' Report
- Attachment 2: Memorandum – Independent Auditors' Report on the U.S. Fish and Wildlife Service's Financial Statements for Fiscal Years 2006 and 2005
- Attachment 3: Status of Audit Report Recommendations



## United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, DC 20240

Memorandum

AUG 14 2007

To: Director, Fish and Wildlife Service

From: Anne L. Richards *Anne L. Richards*  
Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the Fish and Wildlife Service Financial Statements for Fiscal Years 2006 and 2005 (Report No. X-IN-FWS-0020-2006)

### **INTRODUCTION**

This memorandum transmits the KPMG LLP (KPMG) auditors' report of the Fish and Wildlife Service (Service) financial statements for fiscal years 2006 and 2005 (Attachment 1). The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, requires the Inspector General or an independent auditor, as determined by the Inspector General, to audit the Department of the Interior (DOI) financial statements. Under a contract issued by DOI and monitored by the Office of Inspector General (OIG), the independent public accounting firm KPMG performed an audit of the Service fiscal years 2006 and 2005 financial statements. The contract required that the audit be performed in accordance with the "Government Auditing Standards" issued by the Comptroller General of the United States and with Office of Management and Budget Bulletin No. 06-03, "Audit Requirements for Federal Financial Statements."

### **RESULTS OF INDEPENDENT AUDIT**

In its audit report dated November 6, 2006, KPMG issued an unqualified opinion on the Service financial statements. However, KPMG identified two reportable conditions in internal controls over financial reporting, neither of which were considered to be material weaknesses. KPMG also found one deficiency in internal controls over Required Supplementary Information. In addition, KPMG identified one instance where the Service did not comply with laws and regulations, specifically the Federal Financial Management Improvement Act of 1996 (FFMIA). The report contains five recommendations that, if implemented, should resolve the findings.

### **STATUS OF RECOMMENDATIONS**

In its December 19, 2006 response (Attachment 2) to the draft report, the Service agreed with two of the four findings and disagreed with the other two findings. The Service also addressed each recommendation, stating that it agreed with three of the five recommendations and disagreed with two of the recommendations (see Attachment 3, "Status of Audit Report

Recommendations"). We will refer the three resolved recommendations to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. Additionally, we will refer the two unresolved recommendations to the Assistant Secretary for resolution.

### ***EVALUATION OF KPMG AUDIT PERFORMANCE***

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To fulfill our monitoring responsibilities, the OIG:

- assessed KPMG's approach and planning of the audit;
- evaluated the qualifications and independence of the auditors;
- monitored the progress of the audit at key points;
- participated in periodic meetings with Service management to discuss audit progress, findings, and recommendations;
- reviewed and accepted KPMG's audit report; and
- performed other procedures we deemed necessary.

KPMG is responsible for the attached auditors' report and for the conclusions expressed in the report. We do not express an opinion on Service financial statements or KPMG conclusions on the effectiveness of internal controls or compliance with laws, regulations, and the FFMIA.

### ***REPORT DISTRIBUTION***

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The legislation, as amended, creating the OIG requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, we will include this report in our next semiannual report. The distribution of the report is not restricted, and copies are available for public inspection.

We appreciate the courtesies and cooperation extended to KPMG and OIG staff during the audit. If you have any questions regarding the report, please contact me at 202-208-5512.

Attachments (3)

cc: Assistant Secretary, Fish, Wildlife and Parks  
Audit Liaison Officer, Fish, Wildlife and Parks  
Chief Financial Officer, Fish and Wildlife Service  
Audit Liaison Officer, Fish and Wildlife Service  
Director, Office of Financial Management  
Associate Director, Office of Financial Management  
Focus Group Leader, Internal Control and Audit Follow-up, Office of Financial Management  
Audit Liaison Officer, Office of Financial Management



KPMG LLP  
Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

### Independent Auditors' Report

The Director of the United States Fish and Wildlife Service and Inspector General  
U.S. Department of the Interior:

We have audited the accompanying consolidated balance sheets of the United States Fish and Wildlife Service (Service) as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2006 audit, we also considered the Service's internal control over financial reporting, Required Supplementary Stewardship Information, and performance measures and tested the Service's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

#### SUMMARY

As stated in our opinion on the consolidated financial statements, we concluded that the Service's consolidated financial statements as of and for the years ended September 30, 2006 and 2005, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our opinion, in fiscal year 2006, the Service changed its method of accounting for and reporting of earmarked funds, heritage assets, and certain allocation transfers to adopt changes in accounting standards and Office of Management and Budget (OMB) requirements.

Our consideration of internal control over financial reporting, Required Supplementary Stewardship Information, and performance measures resulted in the following conditions being identified as reportable conditions. However, none of the reportable conditions are believed to be material weaknesses.

- A. Controls over the Reporting of the Sport Fish Restoration and Boating Trust Fund (SFRBTF)
- B. Application and General Controls over Financial Management Systems

We also noted the following deficiency in internal control over Required Supplementary Information that, in our judgment, could adversely affect the Service's ability to collect, process, record, and summarize this information.

- C. Processes and Controls over Reporting the Condition of Museum Collections

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instance of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

D. *Federal Financial Management Improvement Act of 1996*

The following sections discuss our opinion on the Service's consolidated financial statements; our consideration of the Service's internal control over financial reporting, Required Supplementary Stewardship Information, and performance measures; our tests of the Service's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

**OPINION ON THE FINANCIAL STATEMENTS**

We have audited the accompanying consolidated balance sheets of the Service as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Service as of September 30, 2006 and 2005, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Service changed its method of accounting for and reporting earmarked funds in fiscal year 2006 to adopt the provisions of the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*. Also, as discussed in Note 1 to the consolidated financial statements, the Service changed its method of reporting for heritage assets and stewardship land in fiscal year 2006 to adopt the applicable provisions of the FASAB's SFFAS No. 29, *Heritage Assets and Stewardship Land*. As discussed in Note 13 to the consolidated financial statements, the Service changed its method of accounting for and reporting certain allocation transfers in fiscal year 2006 to adopt the OMB requirements.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and accordingly, we express no opinion on it. As a result of such limited procedures, we believe that the Required Supplementary Information for museum collections is not presented in conformity with U.S. generally accepted accounting principles because the Required Supplementary Information disclosures for museum collections disclose the condition of the facility housing the museum collection rather than the condition of the underlying museum collection.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Service's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

In our fiscal year 2006 audit, we noted certain matters, described below, involving internal control over financial reporting and its operation that we consider to be reportable conditions. However, none of these reportable conditions are believed to be material weaknesses. Exhibit I presents the status of prior year reportable conditions.

**A. Controls over the Reporting of the Sport Fish Restoration and Boating Trust Fund (SFRBTF)**

The Service did not implement the provisions of SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, paragraph 38, during fiscal year 2006 as part of its interim (June 30, 2006) financial reporting process. In addition, the Service did not have appropriate internal controls in place to ensure that new accounting standards are implemented properly and in a timely manner.

SFFAS No. 27, effective beginning in FY 2006, amended Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display*, and required the respective component entities, the U.S. Army Corps of Engineers and the U.S. Coast Guard, to report their portions of the SFRBTF since the financial amounts and activity are readily identifiable.

Service management was aware of the reporting requirements of SFFAS No. 27; however, they focused their efforts on the identification of earmarked funds and awaited comprehensive guidance from the Department of the Interior's (Interior's) Office of Financial Management on the reporting of earmarked funds related to the SFRBTF. After numerous discussions with the KPMG LLP audit team and the Interior officials, the Service did properly implement SFFAS No. 27 as part of its September 30, 2006 year-end financial reporting. However, the implementation process was difficult.

**Recommendations**

We recommend that the Service:

1. Continue to provide the U.S. Army Corps of Engineers and the U.S. Coast Guard their respective account balances and activity related to the SFRBTF on a monthly basis.
2. Enhance internal controls to ensure that new accounting standards are implemented properly and in a timely manner.

**Management Response**

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations.

**B. Application and General Controls over Financial Management Systems**

The Service has made recent improvements in security and controls over its information systems; however, controls still need to be improved in the areas described below, as required by OMB Circular A-130, *Management of Federal Information Resources*. These conditions could affect the Service's ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, ensure that data and system integrity is achieved, and protect its information resources.

**1. Access Controls**

Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. The Service did not have adequate controls to prevent or detect access to certain information systems in order to protect against unauthorized modification, loss, and disclosure of data. Specifically, we noted that the Service has not formally documented procedures that address the process for granting access to the financial system application operating system. However, we did not identify any users with inappropriate access to the financial system application during our audit.

**2. Certification and Accreditation**

A financial system application at the Service is exempt from the requirements of having a formal Certification and Accreditation. However, the financial system application at the Service is noncompliant with the requirements of the National Business Center financial system application System Technical Implementation Guide as follows:

- Financial system application management has not developed procedures for the monitoring of access to or modifications made to critical or sensitive files.
- Financial system application management has not completely implemented a process to ensure that unauthorized modifications by system administrators to operating systems and databases are detected and reported.

**3. Contractor Tracking**

The Service does not have a process in place to accurately track the population of contractors with access to Service information technology (IT) systems. As a result, Service management was unable to provide us with a list of IT contractors, preventing Service management and us from:

- [Exemption 2 (high)]
- Determining whether contractors are signing nondisclosure agreements, as required by Service policy.
- [Exemption 2 (high)]
- Determining whether contractors are taking Interior security awareness training.

**4. Configuration Management**

The Service has not fully implemented a process to ensure that unauthorized modifications by system administrators to a grants management system and its related database are detected and reported.

In addition, one of the financial system's System Software Change Control Procedures can be improved. The system software procedures are for controlling changes to the database and operating system. Some of the following weaknesses identified included:

- There is no information within the financial system software procedures on who is responsible for reviewing testing evidence to determine if changes should be implemented.

Redactions have been made to page 4 pursuant to 5 U.S.C. § 552(b)(2) of the Freedom of Information Act.

- There is no detailed information within the financial system software procedures on testing procedures and documentation requirements.
- The Access Restriction section within the financial system software procedures has not been completed.
- The financial system software procedures contain no information on Windows O/S system patching change process.
- There is no information within the financial system software on the assignment of change criticality levels.
- There are no emergency change procedures included in the financial system software.

#### ***Recommendation***

We recommend that the Service develop and implement a formal action plan to improve the control environment over its financial management systems. This plan should address each of the areas discussed above, as well as other areas that might impact the IT control environment to ensure adequate security and protection of the Service's financial management systems.

#### ***Management Response***

Management has prepared an official response presented as a separate attachment to this report. In summary, management generally agreed with our findings and its comments were responsive to our recommendation.

### **INTERNAL CONTROLS OVER REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION AND PERFORMANCE MEASURES**

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls as follows. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the Required Supplementary Stewardship Information or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the internal control over the Required Supplementary Stewardship Information and the design and operation of internal control over the existence and completeness assertions related to performance measures reported in the Management's Discussion and Analysis section would not necessarily disclose all matters involving the internal control and its operation related to Required Supplementary Stewardship Information or the design and operation of the internal control over the existence and completeness assertions related to key performance measures that might be reportable conditions.

In our fiscal year 2006 audit, we noted no matters involving the internal control and its operation related to Required Supplementary Stewardship Information that we considered to be material weaknesses as defined above.

In our fiscal year 2006 audit, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

## INTERNAL CONTROLS OVER REQUIRED SUPPLEMENTARY INFORMATION

We noted a certain deficiency in internal control over Required Supplementary Information described in the following paragraphs that, in our judgment, could adversely affect the Service's ability to collect, process, record, and summarize Required Supplementary Information.

### C. Processes and Controls over Reporting the Condition of Museum Collections

The Service did not establish controls to determine and disclose the condition of museum collections in accordance with SFFAS No. 29, *Heritage Assets and Stewardship Land*, as the Service disclosed the condition of the facility housing the collection rather than the condition of the underlying museum collection. Accounting standards applicable to condition assessments of museum collections include SFFAS No. 29, which amends SFFAS No. 8, *Supplementary Stewardship Reporting*, and SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, and establishes the disclosure requirements for museum collections. The standard requires the Service to assess the condition of museum collections.

The Service considers museum collections to be in stable condition if the facility housing the museum collection is in stable condition. If a collection is housed in a poor facility, the condition of the collection would be considered "poor," regardless of the actual condition of the collection itself. If that same collection is moved to a new facility, which is in good condition, the collection would then be considered in "good" condition because the surrounding environment is in "good" condition and any environmental problems contributing to the deterioration of the collection would improve because of the condition of the new facility.

#### *Recommendation*

We recommend that the Service assess and disclose the condition of the museum collections rather than the facility housing the collection. Although the condition of the facility may be an important criterion in determining the condition of the museum collection, we recommend that the Service consider other factors, such as whether or not the Service intends to improve the collection, in defining the acceptable condition for museum collections.

#### *Management Response*

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with our recommendation.

#### *Auditors' Response to Management's Response*

SFFAS No. 8, paragraphs 50 and 81, require federal agencies to report in the stewardship section of its report the condition of heritage assets. The Service has assessed the condition of the facility housing the museum collections. We believe reporting the condition of the facility does not address the condition of the individual museum collections. This condition results in incomplete disclosures of museum collections. We encourage the Service to continue to seek guidance from FASAB for reporting museum collections.

## COMPLIANCE AND OTHER MATTERS

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

The results of our tests of FFMIA disclosed an instance, described below, where the Service's financial management systems did not substantially comply with the applicable federal accounting standards.

**D. Federal Financial Management Improvement Act of 1996**

As discussed in the section of our report entitled Internal Controls over Required Supplementary Information, we noted a significant deficiency in internal control over the condition assessment of museum collections. This significant deficiency in internal control is also an indicator of noncompliance with FFMIA provisions related to applicable federal accounting standards.

**Recommendation**

We recommend that the Service assess and disclose the condition of museum collections rather than the facility housing the collection. Although the condition of the facility may be an important criterion in determining the condition of museum collections, we recommend that the Service consider other factors, such as whether or not the Service intends to improve the collection, in defining the acceptable condition for museum collections.

**Management Response**

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with our recommendation.

**Auditors' Response to Management's Response**

As discussed in the section of our report entitled Internal Controls over Required Supplementary Information, federal accounting standards require the Service to report in its annual report the condition of museum collections. We believe reporting the condition of the facility does not address the condition of the individual museum collections. This condition results in incomplete disclosures of museum collections. We believe the Service needs to improve its reporting in this area to meet the requirements of the federal accounting standards.

The results of our tests of FFMIA disclosed no instances in which the Service's financial management systems did not substantially comply with the federal financial management systems requirements or United States Standard General Ledger at the transaction level discussed in the Responsibilities section of this report.

\*\*\*\*\*

**RESPONSIBILITIES**

**Management's Responsibilities.** The United States Code Title 31 Sections 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To assist Interior in meeting these reporting requirements, the Service prepares financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the Management's Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining effective internal controls over financial reporting; and

- Complying with laws, regulations, contracts, and grant agreements applicable to the Service, including FFMLA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2006 and 2005 consolidated financial statements of the Service based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Service's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2006 audit, we considered the Service's internal control over financial reporting by obtaining an understanding of the Service's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide an opinion on the Service's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 06-03, in our fiscal year 2006 audit, we considered the Service's internal control over the Required Supplementary Stewardship Information by obtaining an understanding of the Service's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. We limited our testing to those controls necessary to test and report on the internal control over Required Supplementary Stewardship Information in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over the Required Supplementary Stewardship Information, and accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 06-03, in our fiscal year 2006 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over reported performance measures, and accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Service's fiscal year 2006 consolidated financial statements are free of material misstatement, we performed tests of the Service's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Service. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit, and accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03 and FFMIA, auditors are required to report whether certain federal entities' financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To assist the auditors of Interior meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

We noted certain additional matters that we have reported to management of the Service in a separate letter dated November 6, 2006.

#### **RESTRICTED USE**

This report is intended solely for the information and use of the Service's and Interior's management, Interior's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

November 6, 2006

## UNITED STATES FISH AND WILDLIFE SERVICE

Status of Prior Year Findings

September 30, 2006

Ref	Condition	Status
2005-A	Processes and controls over the condition assessment of heritage assets (museum collections)	This condition has not been corrected and is repeated as a significant deficiency in fiscal year 2006. See finding C.
2005-B	Reporting of deferred maintenance amounts for stewardship lands and heritage assets	This condition has been corrected.
2005-C	<i>Federal Financial Management Improvement Act of 1996</i>	This condition has not been entirely corrected and is repeated as a significant deficiency in fiscal year 2006. See finding D.



In Reply Refer To:  
FWS/DFM/028920

# United States Department of the Interior

FISH AND WILDLIFE SERVICE  
Washington, D.C. 20240

DEC 19 2006



Anne L. Richards  
Assistant Inspector General for Audits  
U.S. Department of the Interior  
Office of Inspector General

Jeffrey Norris  
c/o KPMG LLP  
2001 M St., NW  
Washington, DC 20036

RE: Draft Independent Auditors' Report on the U.S. Fish and Wildlife Service's  
Financial Statements for Fiscal Years 2006 and 2005

The Fish and Wildlife Service (Service) has reviewed the subject draft audit report, in which KPMG, LLP issued an unqualified opinion on the Service's financial statements for Fiscal Years (FY) 2006 and 2005. The Service agrees that internal control deficiencies found in financial reporting represent reportable conditions, except for the finding concerning museum collections. The Service does not agree that the condition of museum collections rather than the facilities housing them should be assessed. In a memorandum dated October 21, 2005, the Department of the Interior's (Department) Assistant Secretary - Policy, Management and Budget concluded that assessing the condition of museum objects based on the condition of the facility housing the collection is appropriate. The Assistant Secretary's conclusion was confirmed by the Department's Director, Office of Financial Management, in a memorandum to the Assistant Inspector General for Audits dated June 9, 2006.

In general, the Service is committed to taking all necessary corrective actions to resolve the identified deficiencies in our internal controls over financial reporting.

Enclosed are the Service's comments on each of the findings, including, as appropriate, planned corrective actions, target dates, and responsible officials.

If you have any questions, please contact George Keller in the Division of Financial Management at 703-358-2054.

Sincerely,

Acting  
Deputy

*Kenneth Stansell*  
DIRECTOR

Enclosure



**A. Controls Over the Reporting of the Sport Fish Restoration and Boating Trust Fund (SFRBTF)**

The Service concurs with the finding and recommendations.

The Service agrees that SFFAS Number 27, *Identifying and Reporting Earmarked Funds*, requires us to change the way we report the amounts and activity of the SFRBTF in our FY 2006 financial statements, and we have worked diligently to implement the new requirements. Our FY 2006 year-end statements and notes appropriately reflect only the SFRBTF financial activity relating to the Service.

We have coordinated closely with the Department's Office of Financial Management (PFM) on the appropriate reporting of the SFRBTF in the Service's and the Department's financial statements. We have also been in contact with the U.S. Army Corps of Engineers (COE) and the U.S. Coast Guard (CG) concerning the reporting changes. We provided both entities with an explanation of our approach for estimating the SFRBTF financial activity applicable to them, and we have forwarded to them trial balances reflecting the revised reporting requirements. We will work with the Department of the Interior, the Bureau of Public Debt, COE, and CG to establish a process for determining respective account balances for all SFRBTF on a monthly basis.

The Service plans to implement additional controls to ensure that new accounting standards and other accounting requirements are appropriately implemented within the Service in a timely manner. We will add an item to our quarterly financial reporting checklist regarding newly-issued financial reporting standards and other guidance applicable to the Service from the Federal Accounting Standards Advisory Board, the Department of the Treasury, the Office of Management and Budget (OMB), and the Department of the Interior. The checklist will specifically address appropriate coordination of new financial reporting with PFM officials. We will also address the control activities relating to review and implementation of new financial reporting requirements as part of our annual review of internal control over financial reporting in the Service conducted in accordance with OMB Circular A-123, Appendix A.

Target Completion Date: March 31, 2007  
Responsible Officials: Assistant Director - Business Management and Operations  
Assistant Director - Budget and Human Resources  
Assistant Director - Wildlife and Sport Fish Restoration Programs

**B. Application and General Controls Over Financial Management Systems**

The Service agrees with most of the audit findings and has been actively working to implement many of the recommendations. The following is the Service's response to the specific audit findings relating to access controls and entity-wide security program and planning:

**1. Access Controls**

In September 2006, the Service revised system documentation to include details of the procedures for establishing, activating, modifying, reviewing, disabling, and removing

system administrator accounts that have privileges to the financial system application operating system (OS).

## **2. Certification and Accreditation/STIG Compliance**

- The finding related to non-compliance with the National Business Center (NBC) System Technical Implementation Guide (STIG) was added to the FY 2006, Quarter 4, Plan of Action and Milestone (POA&M) in early August 2006. Since then, the Service has implemented non-automated procedures to ensure that changes to the OS are monitored. The standard operating procedure (SOP) of the financial system documents details of change management procedures. The documentation includes the following security controls selected from the controls listed in the NIST SP 800-53

- AC-13 Supervision and Review
- AU-1 Audit and Accountability Policy and Procedures
- AU-6 Audit Monitoring, Analysis, and Reporting
- MA-5 Maintenance Personnel
- PS-8 Personnel Sanctions
- SI-9 Information Input Restrictions

Due to effective compensating controls in the non-automated procedures, the Designated Approving Authority (DAA) has accepted possible residual risks associated with the weakness indefinitely.

- In September 2006, the Service completed the process of granting and monitoring access to the OS. The process is documented in the most recent SSP. The Service system administrators have access only to the OS. The NBC technical staff serves as database administrator and therefore Service system administrators do not have the access to modify databases.

## **3. Contractor Tracking**

The Service generally concurs with the finding. The Service plans to develop a workgroup of all stakeholders to develop standard processes and procedures to mitigate the potential risks.

## **4. Configuration Management**

Of the two financial systems mentioned in the auditor's report, the Service has implemented non-automated procedures for the first financial system to mitigate the risk of unauthorized modifications by system administrators. The Service will implement automated procedures for the second financial system by using a change detection software package called Tripwire.

As of August 2006, the Service has mitigated the risks noted in the following statements of the auditor's report pertaining to the second financial system:

- *"The financial system software procedures contain no information on Window O/S system patching change process",*
- *"There is no information within the financial system software on the assignment of change criticality levels",*
- *"There are no emergency change procedures included in the financial system software."*

The revised financial system Patch Management Procedures, section Operating System Software Patch/Update Management Process, includes details on monitoring and subscribing to Windows Updates and Vulnerability lists. The support team of the financial system subscribes to St. Bernard's Update Expert and Eye Digital Retina. Whenever Microsoft issues security updates, the support team receives an e-mail notification along with an in-depth analysis of each update and its criticality. The section Operating System Software Patch/Update Management Process also includes instruction for prioritizing and categorizing software patches. In addition, the revised Patch Management Procedures fully documents emergency change procedures in the section Operating System Software Patch/Update Management Process under Emergency Deployment Conditions. The financial system patch management server is currently installed and will be deployed at the completion of final configuration.

The Service will continue to implement procedures and document corrective measures necessary for the second financial system to mitigate the following risks listed in the auditors' report:

- *"There is no information within the financial system software procedures on who is responsible for reviewing testing evidence to determine if changes should be implemented",*
- *"There is no detailed information within the financial system software procedures on testing procedures and documentation requirements",*
- *"The Access Restriction section within the financial system software procedures has not been completed."*

Target Date: June 30, 2007

Responsible Official: Assistant Director - Information Resources and Technology Management

### **C. Museum Collections**

The Service does not concur with the finding and recommendation.

The Service's position concerning museum collections is in accordance with Statement of Federal Financial Accounting Standards No. 29, *Heritage Assets and Stewardship Land* and is consistent with the conclusion reached by the Department's Assistant Secretary - Policy, Management and Budget (AS/PMB) in the memorandum dated October 21, 2005 referenced above. In that memorandum, the AS/PMB concludes that assessing the condition of museum objects based on the condition of the facility housing the collection is appropriate. The AS/PMB's conclusion was confirmed in a memorandum from the Department's Director, Office of Financial Management to the Assistant Inspector General for Audits dated June 9, 2006 (also referenced above).

We would like to point out that the Service does provide deferred maintenance estimates relating to all constructed assets, including buildings that house museum collections. These estimates are incorporated in our comprehensive condition assessment process and deferred maintenance costs are assessed and reported in annual financial reports. For these assets, we believe the criteria for determining the deferred maintenance estimates are reasonable.

Providing adequate storage and protection of museum collections is a requirement of those institutions with which we have active, up-to-date agreements. New agreements with institutions and updated information about the condition of the institutions holding museum property is added each year. Information collected for condition assessment of these facilities follows established Departmental guidance.

#### **D. Federal Financial Management Improvement Act of 1996**

The Service does not concur with the finding and recommendation.

Please see the discussion above for the Service's response to the finding and recommendation concerning museum collections.

The Service appreciates the opportunity to provide comments on the draft audit report. If you have any questions or need additional information, please contact Paul Henne, Assistant Director for Business Management and Operations and Chief Financial Officer, at (703) 358-1822.

We would like to point out that the Service does provide deferred maintenance estimates relating to all constructed assets, including buildings that house museum collections. These estimates are incorporated in our comprehensive condition assessment process and deferred maintenance costs are assessed and reported in annual financial reports. For these assets, we believe the criteria for determining the deferred maintenance estimates are reasonable.

Providing adequate storage and protection of museum collections is a requirement of those institutions with which we have active, up-to-date agreements. New agreements with institutions and updated information about the condition of the institutions holding museum property is added each year. Information collected for condition assessment of these facilities follows established Departmental guidance.

#### **D. Federal Financial Management Improvement Act of 1996**

The Service does not concur with the finding and recommendation.

Please see the discussion above for the Service's response to the finding and recommendation concerning museum collections.

The Service appreciates the opportunity to provide comments on the draft audit report. If you have any questions or need additional information, please contact Paul Henne, Assistant Director for Business Management and Operations and Chief Financial Officer, at (703) 358-1822.

ATTACHMENT 3

**STATUS OF AUDIT REPORT RECOMMENDATIONS**

<b><u>Recommendation</u></b>	<b><u>Status</u></b>	<b><u>Action Required</u></b>
A.1., A.2., and B.	Resolved; not implemented	Recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.
C. and D.	Unresolved	Recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for resolution.